



## **SPORTS ECONOMICS**

### **ECON-GB.2360**

**PROFESSOR SIMON BOWMAKER**

**SPRING 2010**

#### **Description and Scope**

This MBA elective course applies microeconomic theory and econometric analysis to sport and explores some public policy issues that have arisen in the design of sports competitions. In addition, it applies the tools of behavioral finance to sports betting markets. This is a unique opportunity to understand why there has been a recent explosion in economists looking both at the market of sports and using sports data to explain or test theories about the wider business world.

The course is divided into four main parts:

Part I: *The Structure of Sports Leagues* (competitive balance in sports, the Coase theorem and the paradox of power, and incentive effects of promotion and relegation)

Part II: *Labor Market Issues* (pay and performance, tournament theory and optimal compensation, and principal-agent problems)

Part III: *College Sports* (university finance, and college athletes and pay)

Part IV: *Market for Sports Betting* (microeconomic theory and gambling, home field advantage, the hot hand in basketball, point shaving in basketball, and market efficiency in football)

By the end of the course, you will be able to comment intelligently on economic issues of sport that regularly appear in the news media, such as the impact of salary caps, as well as assess and critique the opinions offered by journalists on, for example, the performance of professional sports men and women. Further, you will be able to offer insights into the parallels between betting on the ball game, gambling at the ponies, and purchasing stock in your favorite firm on the NYSE.

#### **Pre-requisites**

The recommended pre-requisites for the course are introductory training in microeconomics (Firms and Markets) and statistics (Statistics and Data Analysis).

## **Readings**

The required textbook for the course is *The Economics of Professional Team Sports* by Paul Downward and Alistair Dawson (Routledge, 2000). Many of the lectures will also draw upon material from academic journal articles.

## **Course assessment**

The course assessment is as follows:

Class participation	15%
Group presentation	20%
Midterm	30%
Final	35%

## **Course outline and readings**

### **INTRODUCTION TO THE ECONOMICS OF SPORT**

Szymanski, S. (2003), 'The Assessment: The Economics of Sport', *Oxford Review of Economic Policy*, 19 (4), 467-77.

### **THE STRUCTURE OF SPORTS LEAGUES**

#### **A. General themes**

Chapter 2, Downward and Dawson

#### **B. The club as a firm**

Chapter 3, Downward and Dawson

#### **C. Competitive balance: theory**

Chapter 4, Downward and Dawson, pp. 49-53

Szymanski, S. (2003), 'The Economic Design of Sporting Contests', *Journal of Economic Literature*, XLI, 1137-87.

D: Competitive balance: evidence

Chapter 4, Downward and Dawson, pp. 53-56

Schmidt, M. and D. Berri (2001), 'Competitive Balance and Attendance: the Case of Major League Baseball', *Journal of Sports Economics*, 2, 2, 145-67.

Forest, D. and R. Simmons (2002), 'Outcome Uncertainty and Attendance Demand in Sport: the Case of English Soccer', *Journal of the Royal Statistical Society, Series D (The Statistician)*, 51, 2, 229-41.

E. Competitive balance, the Coase theorem and the paradox of power

Downward and Dawson, Chapter 4, pp. 58-60

Hirschleifer, J. (1991), 'The Paradox of Power', *Economics and Politics*, 3, pp.177-200.

Szymanski, S. (2007), 'The Champions League and the Coase Theorem', *Scottish Journal of Political Economy*, 53, 355-73.

F. Incentive effects of promotion and relegation

Szymanski, S. and T. Valletti (2005), 'Promotion and Relegation in Sporting Contests', *Rivista di Politica Economica*, 95, 3-39.

Noll, R. (2002), 'The Economics of Promotion and Relegation in Sports: the Case of English Football', *Journal of Sports Economics*, 3, 2, 169-203.

**LABOR MARKET ISSUES**

A. Pay and performance

Downward and Dawson, Chapters 9 and 10

Scully, G. (1974), 'Pay and Performance in Major League Baseball', *American Economic Review*, 64, 6, 915-30.

Krautmann, A. (1999), 'What's Wrong with Scully's Estimates of a Player's Marginal Revenue Product', *Economic Inquiry*, 37, 69-81.

#### B. Tournament theory and optimal compensation

Rosen, S. (1986), 'Prizes and Incentives in Elimination Tournaments', *American Economic Review*, 76, 701-15.

Lazear, E. and S. Rosen (1981), 'Rank Order Tournaments as Optimal Labor Contracts', *Journal of Political Economy*, 89, 841-64.

#### C. Empirical research on tournaments

Ehrenberg, R. and M. Bognanno (1990), 'Do Tournaments have Incentive Effects', *Journal of Political Economy*, 98, 6, 1307-24

Lynch, J.G. and J.S. Zax (2000), 'The Rewards to Running: Prize Structure and Performance in Professional Road Racing', *Journal of Sports Economics*, 1, 323-40.

#### D. Principal-agent problems

Holmstrom, B. (1982), 'Moral Hazard in Teams', *Bell Journal of Economics*, 13, 324-40.

Berri, D.J. and A.C. Krautman (2006), 'Shirking on the Court: Testing for the Incentive Effects of Guaranteed Pay', *Economic Inquiry*, 44, 3, 536-46.

### **COLLEGE SPORTS**

#### A. College athletics and university finance

Borland, M., B. Goff and R. Pulsinelli, (1992), 'College Athletics: Financial Burden or Boon?', in Gerald Scully (ed.), 'Advances in the Economics of Sports', vol.1, pp. 215-236.

Brown, R.W. (1994), 'Incentives and Revenue Sharing in College Football: Spreading the Wealth or Giving Away the Game?', *Managerial and Decision Economics*, 15, 471-86.

B. College athletes and pay

Long, J.E. and S.B. Caudill (1991), 'The Impact of Participation in Intercollegiate Athletics on Earnings and Graduation', *Review of Economics and Statistics*, 73 (3), 525-31.

Pestana, B.C. (2001), 'Economic Return to Schooling for Soccer Players', *Journal of Sports Economics*, 2, 4, 369-78.

Olbrecht, A. (2007), 'The Economic Return for College Attendance for Major League Baseball Players', *Applied Economics Letters*, 14 (13), 981-85.

## **MARKET FOR SPORTS BETTING**

A. Microeconomic theory and gambling

Sauer, R.D. (1998), 'The Economics of Wagering Markets', *Journal of Economic Literature*, 36, 2021-64.

B. Home field advantage

Vergin, R.C. and J.J. Sosick, (1999), 'No Place Like Home: An Examination of the Home Field Advantage in Gambling Strategies in NFL Football', *Journal of Economics and Business*, 51, 21-31.

C. The Hot Hand in basketball

Camerer, C. (1989), 'Does the Basketball Market Believe in the "Hot Hand"?', *American Economic Review*, 79, 1257-61.

Brown, W.O. and R.D. Sauer (1993), 'Does the Basketball Market Believe in the Hot Hand? Comment', *American Economic Review*, 93, 1377-86.

D. Point shaving in college basketball

Wolfers, J. (2006), 'Point Shaving: Corruption in NCAA Basketball', *American Economic Review*, 96, 279-83.

E. Football market efficiency

Gray, P.K. and S.F. Gray (1997), 'Testing Market Efficiency: Evidence from the NFL Sports Betting Market', *Journal of Finance*, 52 (4), 1725-37.