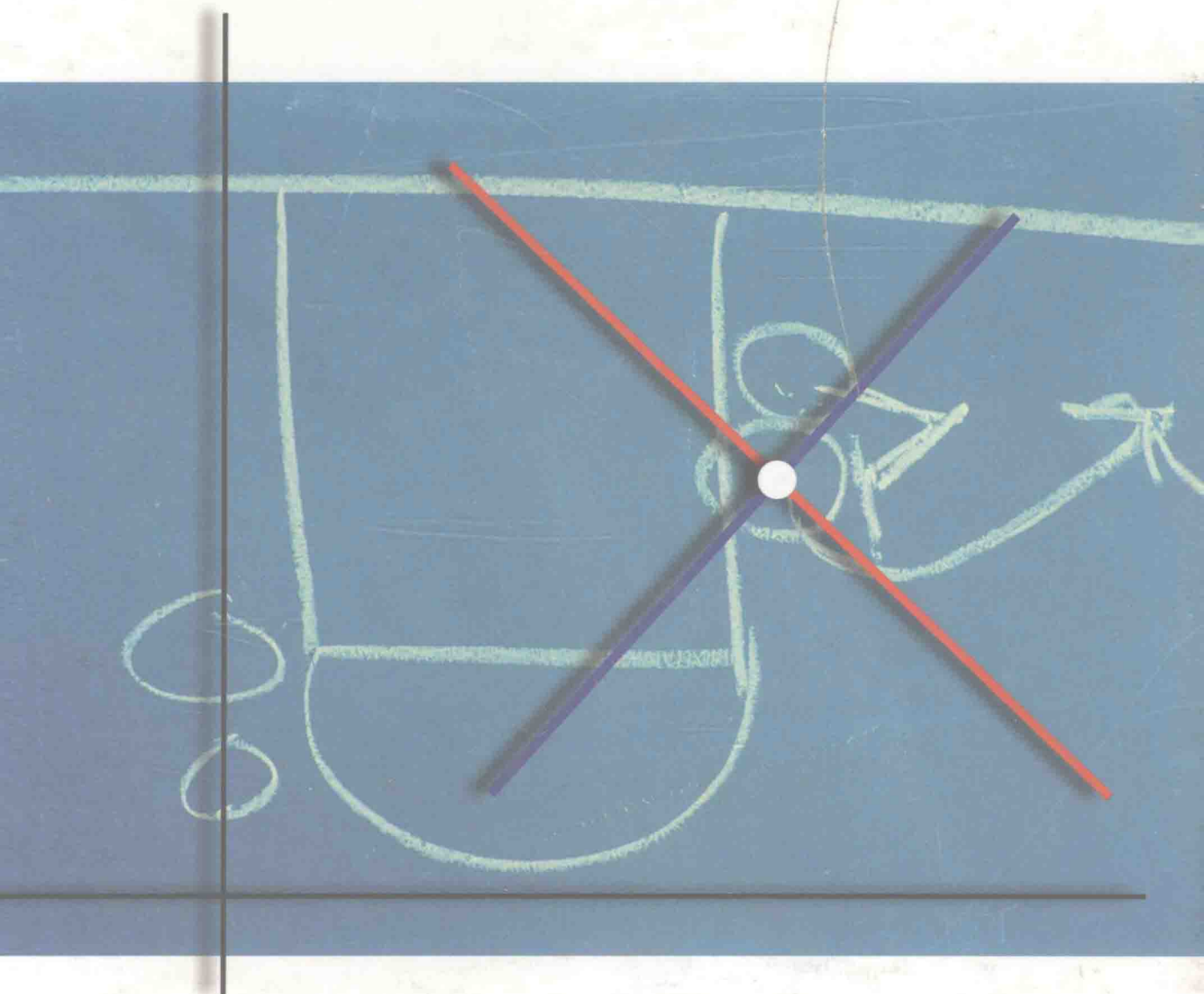


# The Economics of Sports



Michael Leeds • Peter von Allmen

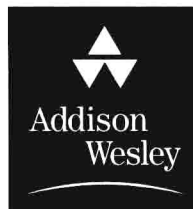
# The Economics of Sports

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## **Dedication**

*For Heather, Daniel, Thomas, and Eric von Allmen and  
Eva, Daniel, and Melanie Leeds. Good sports all.*

# PREFACE

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## WHY SPORTS?

That question hangs over many conversations we have with colleagues about teaching the economics of sports. As we enter the 21st century, our cities struggle with meeting the basic needs of their residents, the distribution of incomes becomes steadily less equal, and Microsoft and the Justice Department engage in an antitrust struggle that will take years to resolve and may reshape both the computer industry and U.S. industrial policy. In such an environment, spending a semester discussing baseball and hockey strikes some of our peers as folly.

We disagree. As our students learn—and as this book will show—one cannot discuss the economics of sports without encountering issues such as municipal finance, income distribution, and monopoly power that appear in more traditional classes like public finance, labor economics, and industrial organization. Over the last generation, the sports world has undergone a remarkable transformation. Once an escape from our everyday cares, sports has evolved into an industry that figures as much in the business section as in the sports section of newspapers and magazines.

A student who understands the economics of sports will have little trouble applying these concepts to a wide variety of contexts. Moreover, we have found that introducing students to these concepts through the prism of sports engages them in a way that traditional treatments do not. The sports industry has a unique hold on many of our students. Students who show no interest in multiplier effects or the functioning of labor markets anxiously follow their city's plans to build a new stadium and the latest free agent signing by their home team.<sup>1</sup> Many instructors have noticed the great opportunity inherent in this overlap between student interest and economic insight and have sought to motivate their students by using sports to illustrate economic principles. Over time, and fueled by intense student (and instructor!) interest in the topic, isolated examples have evolved into full-fledged courses on the economics of sports.

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<sup>1</sup>In one memorable labor class, one of us tried to illustrate the preference shown in some "old boy networks" to graduates of Ivy League universities by asking what an employer might think if an applicant showed up in an orange and black tie. An eager student immediately replied, "He'd see the applicant is a Flyers fan!"

Until now, economics of sports classes have been handicapped by the lack of a core textbook. While many outstanding books on the economics of sports exist, none is specifically designed for the classroom. Instructors who wanted to teach a course on the economics of sports had to patch together readings that are often ill suited for the purpose. This text is designed with the instruction of economic concepts as its central focus. It includes the detailed pedagogy, clear graphs, careful definitions, and end-of-chapter materials that undergraduate students need to guide them through the subject matter. Students will benefit from the focus and direction that this text provides. This text will assist instructors who already teach the economics of sports and encourage others who may have been reluctant to offer such a course because they had no text around which to organize it.

## **INTENDED AUDIENCE**

In writing this text, we sought to create a comprehensive, accessible book that could serve as the core for sports economics courses at a variety of levels. Economics of sports classes are taught at different levels, ranging from undergraduate courses with principles of economics as the only prerequisites, to the graduate level. This text is designed to offer a high level of flexibility to the instructor. All of the material in the main body of the text should be accessible to students with a single semester of microeconomics principles.

To enrich courses taught at a higher level, we have included appendixes containing intermediate-level material at the end of several chapters. To ensure that all students begin the course with a common background, we provide a substantial review of principles-level material in Chapter 2. This material can be covered explicitly with lecture support, or left to the students to read on their own, as needed. For instructors interested in presenting the results of econometric research, Chapter 2 contains an appendix on the fundamentals of regression. In advanced undergraduate and graduate-level courses, the text can serve as a foundation for common understanding of basic concepts.

## **ORGANIZATION OF THE TEXT**

The nature of our subject made organization a challenge. Unlike area courses such as industrial organization or labor economics, which are self-contained fields in the broader area of economics, sports economics cuts across a wide array of economic disciplines. To deal with this challenge, we have split the text into four parts, each devoted to illustrating prominent areas of economics: basic theory, industrial organization, public finance, and labor economics. We hope that this division provides students with an overview of economics and inspires them to pursue each field in its own right. Because we focus largely on professional sports in the first three parts of the book, we include a major chapter in the final section devoted to amateur sports. This



final chapter provides insights into theories related to the not-for-profit sector of the economy, such as the theory of bureaucracy. Each of the four parts of this text presents significant economic concepts and recent evidence and research in that area of economics.

## CHAPTER COVERAGE AND OPTIONS

The first two chapters provide an introduction to the topic of sports economics, a review of principles-level tools, and an illustration of how economic principles apply to the sports industry. Chapters 3 and 4 focus on the industrial organization of the sports industry. Here, we discuss the competitive landscape, the implications of monopoly power, and the notion of profit maximization. Chapter 4 focuses specifically on issues of antitrust and regulation and how they have affected the formation, success, and sometimes, the failure of leagues.

Chapters 5 and 6 focus on public finance. In this portion of the text, students learn the economics behind the current stadium boom that is in progress in so many U.S. cities—why teams seem to have so much power over municipalities, and why municipalities fight so hard to keep the teams they have as well as to court new ones.

Chapters 7 through 9 focus on labor issues related to sports. Chapter 7 introduces human capital theory and discusses the impact of labor markets on the distribution of talent across a professional league and on competitive balance. Instructors who would like to introduce labor or competitive balance topics earlier can skip to Chapter 7 immediately after completing Chapter 4. Chapter 8 covers the economics of unions in the context of the sports industry, and Chapter 9 discusses discrimination.

Finally, Chapter 10 focuses on the economics of amateur sports, especially major collegiate sports. Because major college sports is really an industry itself, this chapter serves as a capstone to the text, incorporating the theories and concepts from many of the previous chapters.

## ACKNOWLEDGMENTS

In a project such as this, the list of people who contributed to its completion extends far beyond those whose names appear on the cover. We owe personal and professional debts of sincere gratitude to a great many people.

First, we thank our editorial team at Addison-Wesley, including Victoria Warneck, Roxanne Hoch, Sylvia Mallory, Deb Lally, Denise Clinton, Regina Hagen, Katy Watson, Joyce Cosentino, Scott Hitchcock, Andrew Schwartz, Jim Rigney, and Meredith Nightingale. There is no substitute for having a team of true professionals to guide first-time authors through the writing process.

We also are grateful for the advice, encouragement, and suggestions from the community of sports economists, without whose input and support we could not have completed this project. Specifically, we would like to thank all of those who read, reviewed, or class tested early versions of the manuscript, including Stacey Brook, Larry Hadley, Dana Dunn, Eva Marikova Leeds, Ed Coulson, Craig A. Depken II, Richard Douglas, Stanley Engerman, Joseph Fuhr, Michael Hauptert, Nicholas Karatjas, Yngve Ramstad, Henry Thompson, Joel Maxcy, Karl Einolf, Todd Jewell, Raymond Sauer, Roger Blair, Thomas Bruggink, Jason Abrevaya, and Dave Berri. Their attention to detail, careful reading, and thoughtful comments resulted in significant improvements throughout the writing process.

We also thank William Onofry, Rachel Williamson-Broadman, Irina Pistolet, and Donna Deibert, who provided expert research assistance, and Maryann Weaver, who also provided excellent support.

Peter von Allmen's work on the book was partially funded by a grant from the Moravian College Faculty Research and Development Committee.

Finally, we would like to thank our families. Eva, Daniel, Melanie, Heather, Daniel, Thomas, and Eric all contributed in their own ways to making the project a success.

*Michael Leeds*

*Peter von Allmen*

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