BRIEF CONTENTS

Preface xvii

PART	1	Introduction	า and	Review	of	Economic
		Concepts 1	'			

Chapter 1 Economics and Sports 3

Chapter 2 Review of the Economist's Arsenal 13

PART 2 The Industrial Organization of Sports 61

Chapter 3 Sports Franchises as Profit-Maximizing Firms 63

Chapter 4 Monopoly and Antitrust 111

Chapter 5 Competitive Balance 151

PART 3 Public Finance and Sports 181

Chapter 6 The Public Finance of Sports: Who Benefits

and How? 183

Chapter 7 The Public Finance of Sports: Who Pays

and Why? 219

PART 4 The Labor Economics of Sports 249

Chapter 8 An Introduction to Labor Markets in Professional

Sports 251

Chapter 9 Labor Market Imperfections 289

Chapter 10 Discrimination 323

PART 5 Sports in the Not-for-Profit Sector 357

Chapter 11 The Economics of Amateurism and College Sports 359

Works Cited 399
Photo Credits 423

Index 425

CONTENTS

Preface xvii

Part 1 Introduction and Review of Economic Concepts 1

Chapter 1	ECONOMICS	AND SPORTS	3

Introduction 3

- 1.1 The Organization of the Text 4Special Features and Additional Resources 5
- 1.2 Babe Ruth and Comparative Advantage 6
 Opportunity Costs 6
 Absolute and Comparative Advantage 7
 BIOGRAPHICAL SKETCH: Babe Didrikson Zaharias 9
 Summary 11 Discussion Questions 11
 Problems 12

Chapter 2 REVIEW OF THE ECONOMIST'S ARSENAL 13

Introduction 13

Learning Objectives 13

- 2.1 The Supply and Demand Model 14Demand, Supply, and Equilibrium 14Changes in Supply and Demand 17
- 2.2 Producing Output and the Production Function 27
 A Note on the Definition of Output 27
 The Production Function 27
 Price Ceilings and the Economics of Scalping 30
- 2.3 Market Structures: From Perfect Competition to Monopoly 32
 Perfect Competition 32
 Monopoly and Other Imperfectly Competitive Market Structures 34
 The Impact of an Increase in Costs 37
- 2.4 The Rise of Professional Sports 39

 BIOGRAPHICAL SKETCH: Silvio Berlusconi 41

 Summary 43 Discussion Questions 44

 Problems 44

Appendix 2A UTILITY FUNCTIONS, INDIFFERENCE CURVES, AND BUDGET CONSTRAINTS 45

2A.1 Constrained Maximization 45

2A.2 Using Indifference Curves and Budget Constraints: The Rise of Soccer and Baseball 52

Appendix 2B REGRESSION ANALYSIS IN BRIEF 54

Multiple Regression and Dummy Variables 59

Part 2 The Industrial Organization of Sports 61

Chapter 3 SPORTS FRANCHISES AS PROFIT-MAXIMIZING FIRMS 63

Introduction 63

Learning Objectives 64

- 3.1 Maximizing Profits or Maximizing Wins? 65Maximizing Profit 66Maximizing Wins 67
- 3.2 A Closer Look at Revenues, and Costs 68
 A Detailed Look at Revenue 71
 The Distributional Effects of Revenue Sharing 82
 Cost 84
 - Opportunity Cost and Team Movement 85
- 3.3 Taxes, Profit, and Owner Behavior 86
 Finding Profit in Losses 86
 Operating Income, Taxes, and Profit 88
 Vertical Integration 88
- 3.4 The Importance of Leagues 90

 The Origin of Leagues in American Sports 91

 Setting the Rules 92

 Limiting Entry 94

 Limited Entry as Cooperative Behavior 98

 Advertising 98
- SPORTS AND THE LAW: The Limits of Leagues 101
 Soccer's Alternative Business Model 102
 Profit-Maximization in Soccer 103

The Single-Entity Ownership Model 106

The Impact of Promotion and Relegation 104
The Financial Dangers of an Open System 106

BIOGRAP	PHICAL SK	XETCH: Bill Veeck 107	
Summary	108 •	Discussion Questions	109
 Problem 	ns 109		

Chapter 4 MONOPOLY AND ANTITRUST 111

Introduction 111
Learning Objectives 112

- 4.1 What's Wrong with Monopoly? 112
 Monopolists and Deadweight Loss 112
 Do Monopolies Always Charge Monopoly Prices? 115
 Promotion, Relegation, and Monopoly Power 116
- 4.2 Strategic Pricing and Price Discrimination 117
 Variable and Dynamic Ticket Pricing 117
 Bundling 120
 Price Discrimination and Two-part Pricing 121
 Monopoly Stood on Its Head: A Brief Introduction to Monopsony 124
- 4.3 What's Right with Monopoly? 125
- 4.4 Barriers to Entry that Leagues Create 127

 SPORTS AND THE LAW: Franchise Location 128
- 4.5 Society's Response to Monopoly and Monopsony:

 Antitrust Laws 129

 An Important Anomaly: Baseball's Antitrust Exemption 130
 Leagues That Lack an Antitrust Exemption 134
 Limited Exemptions: The NFL and Television 135
- 4.6 The NCAA: An Incidental Cartel 136
- 4.7 Prisoner's Dilemma: How Rational Actions Lead to Irrational Outcomes 139
 - BIOGRAPHICAL SKETCH: Alvin "Pete" Rozelle 142
 Summary 144 Discussion Questions 145
 Problems 145

Appendix 4A OVERVIEW OF BASIC GAME THEORY 146

An Alternative Application of Game Theory 147

Chapter 5 COMPETITIVE BALANCE 151

Introduction 151
Learning Objectives 152

5.1 Why Fans and Owners Want Competitive Balance 152The Fans' Perspective 152

The Owners' Perspective 153	
The Effect of Market Size 154	
The Influence of Diminishing Returns	156
A Brief History of Competitive Balance	157

- 5.2 Measuring Competitive Balance 158
 Within-Season Variation 158
 Between-Season Variation 162
 Illustrating Competitive Imbalance 164
- 5.3 Attempts to Alter Competitive Balance 167
 The Invariance Principle 167
 Revenue Sharing 169
 Salary Caps and Luxury Taxes 171
 The Reverse-Order Entry Draft 173
 Schedule Adjustments in the NFL 176
 Promotion and Relegation 176
 BIOGRAPHICAL SKETCH: Bud Selig 177
 Summary 178 Discussion Questions 179
 Problems 179

Part 3 Public Finance and Sports 181

Chapter 6 THE PUBLIC FINANCE OF SPORTS: WHO BENEFITS AND HOW? 183

Introduction 183 Learning Objectives 184

- 6.1 How Teams Benefit from New Facilities 184
 Facilities, Attendance, and Profits 185
- 6.2 How Fans Benefit from a New Facility 187
 The Size and Shape of Baseball and Football Stadiums 188
 The Size and Shape of Basketball and Hockey Arenas 194
 Do New Facilities Create Better Teams? 196
 Teams as Public Goods 197
- 6.3 How Cities Benefit from Teams, Facilities, and Events 199
 Positive and Negative Externalities 200
 Facilities, Spending, and Tax Revenue 203
 Location, Location, Location 211
 The Impact of Special Events 212

232

		■ BIOGRAPHICAL SKETCH: Al Davis 215
		Summary 217 • Discussion Questions 217 • Problems 217
Chapter 7		PUBLIC FINANCE OF SPORTS: WHO PAYS OWHY? 219
	Intro	duction 220
Learning Objectives 220		ning Objectives 220
	7.1	How Cities Came to Fund Stadiums 220
		Teams on the Move 221
		The Three Eras of Stadium Construction 222
		■ SPORTS AND THE LAW: Who Can Move? 223
	<i>7.2</i>	How Teams Exploit Monopoly Power 224
		Leagues, Cities, and Market Power 225
		The Winner's Curse 229
	<i>7.3</i>	Stadium Location and Costs 230
		How Exchange Rates Affect Costs 231
		Why Most Stadiums Are Not in the Center of Town
	7.4	Stadium Costs and Financing 234
	7.5	Paying for Stadiums 237
		Who Pays a Sales Tax? 240
		Incremental Financing 242

Taxes That Spread the Burden 243

Part 4 The Labor Economics of Sports 249

Problems 248

Chapter 8 AN INTRODUCTION TO LABOR MARKETS IN PROFESSIONAL SPORTS 251

The Benefits of Debt 243

Introduction 251 Learning Objectives 253

8.1 An Overview of Labor Supply and Labor Demand 253
Labor Supply 254
Labor Demand 256
Labor Market Equilibrium 261

■ BIOGRAPHICAL SKETCH: Williard "Mitt" Romney 246
Summary 247 • Discussion Questions 248

8.2 The Economics of Tournaments and Superstars 265

8.3 Tournaments, Cheating, and the Distribution of Income 269

More Potential Pitfalls of High Rewards: The Case of NASCAR 270

Too Much of a Good Thing 272

Performance-Enhancing Drugs 273

The Distribution of Income 277

■ BIOGRAPHICAL SKETCH: Scott Boras 278

Summary 280 • Discussion Questions 280

Problems 281

Appendix 8A THE LABOR-LEISURE CHOICE MODEL OF INDIFFERENCE CURVES 282

The Labor-Leisure Model When Hours Are Fixed 286

Chapter 9 LABOR MARKET IMPERFECTIONS 289

Introduction 289

Learning Objectives 290

9.1 The Monopsony Power of Sports Leagues 290
The Economics of Monopsony 290

The Reserve Clause 292

9.2 Unions in Professional Sports 293

A Brief Introduction to the Economics of Unions 294

■ SPORTS AND THE LAW: McNeil v. The National Football League 299

Salary Arbitration 302

Measuring Monopsony Power 303

Salary Caps 304

Luxury or Competitive Balance Taxes 308

The Impact of Rival Leagues 309

9.3 Labor Conflict and Compromise in Collective Bargaining 311

Comparing the 2011 NBA and NFL Negotiations 315

Professional Tennis Associations 318

■ BIOGRAPHICAL SKETCH: Marvin Miller 320

Summary 321 • Discussion Questions 322

• Problems 322

Chapter 10 DISCRIMINATION 323

Introduction 323

Learning Objectives 324

- 10.1 Becker's Theory of Labor Discrimination 326
- 10.2 Different Forms of Discrimination in Professional Sports 327

Employer Discrimination 327

Does Anyone Win with Employer Discrimination? 332

Employee Discrimination 337

Consumer Discrimination 340

Discrimination by National Origin in European

Soccer 342

Positional Discrimination or Hiring Discrimination 344

Gender Equity—A Special Case? 348

- 10.3 Title IX and Discrimination in College Sports 349
 - BIOGRAPHICAL SKETCH: Branch Rickey 352

Summary 354 • Discussion Questions 354

Problems 355

Part 5 Sports in the Not-for-Profit Sector 357

Chapter 11 THE ECONOMICS OF AMATEURISM AND COLLEGE SPORTS 359

Introduction 359

Learning Objectives 360

- 11.1 The Troublesome Concept of Amateurism 360A Brief History of Amateurism and the Olympic Ideal 360
- 11.2 The Costs and Benefits of College Athletics 366
 The Revenue from Intercollegiate Athletics 366
 The Revenue from Bowl Games 369
 The Cost of Intercollegiate Athletics 373
 Do Colleges Profit from Athletics? 375
 Spillovers from Athletics to the University 376
- 11.3 The Role of the NCAA 380

 The NCAA as a Regulatory Agency 380

 The NCAA as a Club 382

The NCAA as a Cartel 383

Academic Standards: A Basis of Academic Integrity or Monopoly Power? 387

11.4 The Returns to the Athlete 389

Pay for Play: The Grant-in-Aid 389

Measuring the Net Value of Athletes to Colleges 391
College as an Investment for the Student-Athlete 391

■ BIOGRAPHICAL SKETCH: Anita Defrantz 396

Summary 397 • Discussion Questions 398

• Problems 398

Works Cited 399
Photo Credits 423
Index 425