

UNIVERSITY OF NORTH CAROLINA
DEPARTMENT OF ECONOMICS
ECON 485-002: ECONOMICS OF SPORTS
FALL 2014
TTh 8:00 AM – 9:15 AM, GA 309

Instructor: Rita A. Balaban **Phone:** 919-843-8823 (W)
Office: 200E Gardner Hall **E-Mail:** balabanr@email.unc.edu
Office Hours: Wednesdays (8:00am – 10:00am) and Thursdays (12:30pm – 1:30pm) or by appointment
Website: <http://sakai.unc.edu>
Prerequisites: ECON 400 and ECON 410 (you will be dropped from the course if you do not have these prerequisites)

Course Objectives: By the end of this course you should be able to:

- Identify the unique characteristics of professional team sports and explain the purpose of leagues.
- Explain how owner objectives influence player salaries and competitive balance within professional sports leagues.
- Predict in what ways – if any - changes in league policy will affect competitive balance, player salaries, and league profits.
- Determine whether the NCAA should be viewed as a profit-seeking monopoly or a non-profit entity.
- Compare and contrast different kind of ticket pricing strategies employed in sport and solve for the optimal price.
- Describe the market structure of sports broadcasting rights for different leagues and how the size of sports broadcasting revenues have affected player salaries.
- Discuss some of the seminal antitrust cases in sport and explain the final ruling.
- Describe the labor market for athletes, how their salaries are determined, and why their real salaries have grown over time.
- Model the optimal contest design for a sporting event.
- Model the use of PEDs in sport and what strategies should be taken to reduce their use.
- Model the economics of discrimination and determine the degree to which racial and/or gender discrimination exists in sport.
- Evaluate the use of public subsidies to attract (or retain) professional teams and mega-events.
- Employ statistical analysis to test some of the theoretical predictions of the models in the sports literature.

Required Materials:

- Késenne, Stefan. **The Economic Theory of Professional Team Sports: An Analytical Treatment**, Edward Elgar Publishing, 2007.
- Szymanski, Stefan. **Playbooks and Checkbooks: An Introduction to the Economics of Modern Sports**, Princeton University Press, 2009.
- Basic calculator (~ \$1). There is no need for a programmable, scientific, financial, or graphing calculator for this class. Only a basic calculator - similar to the one pictured on Sakai - is permitted for use on exams. If you want to know if your calculator is acceptable, then please do not hesitate to ask me.
- Cell phone with a texting plan or a device that can logon to the University's Wi-Fi (e.g. laptop, tablet). This device will be used to complete class polls (see page 2 of the syllabus).

Course Requirements: This course is very rigorous and demanding. You are expected to work hard, actively participate, ask questions when you have any doubts, and perform to the very best of your ability. Still, the purpose of this course is to teach you something about the economics of sports, not to destroy your GPA.

The grading breakdown follows: (percentage of final grade)

Quizzes (best 5 of 6)	20%
Midterm (October 2nd @ 8:00am)	30%
Cumulative Final Exam (December 11th @ 8:00am)	40%
Data Assignment	5%
In-Class Polls	5%

Quizzes: We will have 6 multiple-choice quizzes during the semester (dates are given on the calendar in Sakai). You will be given 15 minutes for each quiz and it will cover the most recent material. You are allowed to bring one page of your own handwritten notes to the quiz. Your highest five quiz grades will count toward your overall score. There are no make-up quizzes.

Exam Format: Each exam will cover material presented in class, as well as readings and assignments scheduled outside of class. The exam format will be provided in the class prior to a given exam. You should bring your UNC ID, and a “basic” calculator (for a description see the “Required Materials” section of the syllabus) with you to each exam.

Missed Exams: There is no make-up midterm examination. You are forewarned well in advance to properly schedule your time and make proper arrangements for other potential conflicts. If you must miss the midterm exam, say due to illness, you may be permitted to transfer the missed credit to the final examination. To qualify for a transfer of credit, you must contact me **before** the start of the missed midterm examination and provide me with an acceptable explanation. You are required to support your explanation with documentation within 2 business days of the exam. For example, if you miss the exam on October 2nd, then you will have until Monday, October 6th, to provide your documentation. If the explanation and documentation are approved by Dr. Balaban, then the weight of the midterm will be placed on the final exam.

Data Assignments: A data assignment will be given during the semester. My expectations and requirements will be explicitly stated in the assignment. The assignment can be completed using either Excel or a statistical package (e.g. STATA).

“In-class polls” will be conducted during each lecture by using the response system known as *Poll Everywhere*. Participation requires that you have access to a cell phone texting plan or a device that can logon to the University’s Wi-Fi (e.g. tablet, laptop). Prior to our first poll you must register your device with Poll Everywhere (PE). Registration instructions and other FAQ can be found by following this link: <http://help.unc.edu/help/poll-everywhere-faq/>. **If you do not register properly, then your polls will not be counted.** Please verify that you have registered correctly (see the PE FAQ for more info). If you have not used PE in a course since Fall 2012, then you will need to edit your registration information. An explanation of how the polls will be graded can be found on p. 6 of the syllabus.

Grading Scale: I will use the following scale, which is based on a percentage of total possible points, to assign your final grade.

A	= 93-100	C	= 73-76
A-	= 90-92	C-	= 70-72
B+	= 87-89	D+	= 67-69
B	= 83-86	D	= 60-66
B-	= 80-82	F	< 60
C+	= 77-79		

Letter grades are computed from the total points earned during the semester and assigned based on the scale given above. In previous semesters roughly 20% of the class earned in the A-range and 35% of the class earned in the B-range. Although the grade distribution may change this semester, the past scores should give you a sense of my grading standards.

Academic Integrity: All students are expected to adhere to the Honor Code (<http://instrument.unc.edu>). Any violation will result in an **F** for the course, and other sanctions may apply.

Attendance Policy: Regular attendance is strongly recommended. You are responsible for any announcements that you may have missed if you choose not to attend class or if you cannot attend class. You should get the missed notes/announcements from one of your peers. Discuss any questions you have on the content with a classmate or stop by during my scheduled office hours. It is expected that you will respect your peers and the instructor with appropriate behavior while in class and that you will arrive to class on time. **Students who are not willing to attend regularly should drop the course.**

In the event that you must miss or anticipate missing at least 2 *consecutive classes* because of an *extenuating circumstance*, notify me and the Dean of Students immediately. Upon receipt of notification from the Dean of Students and your return to campus, please contact me and we will discuss any adjustments to your course grade calculation. Reminder: read the email etiquette section for when you should/should not contact your professor.

Laptop/Cell-Phone Policy: You should refrain from reading the paper, browsing the web, texting, playing games, etc. during class time. If you are expecting an important phone call (job interview, family illness, etc.), please notify me before class then sit in the back of the class near the exit. The only exception to this rule is if I ask you to bring your laptops to class so we can work on a data assignment or the group project.

Contacts and Email Policy: I prefer that you address all questions/concerns to me in person. However, if you must email me, then please use proper email etiquette (see <http://www.usm.edu/chemistry-biochemistry/e-mail-etiquette-adapted-academia> for details).

Regrade Requests: Requests for a regrade must adhere to the following rules:

1. All Regrade Requests must be made within 1 week of the day on which the grade was posted. There are no exceptions to this rule. For instance, if you find that your midterm grade is incorrect and notify me 2 weeks after it was posted, no Regrade Requests will be accepted.
2. If you feel that any of your work was graded incorrectly, please fill out the Regrade Request Form found in Sakai. If applicable, staple the Request form to your assignment and hand it in at the start of class. Please note that there is an element of subjectivity in grading written work. If your Regrade Request is of a subjective nature ("I think I deserve 10 points and you only gave me 9"), your Request will likely be rejected.
3. If you submit a Regrade Request, I reserve the right to regrade your entire assignment, which could potentially lower your grade.

If your Regrade Request is rejected and you disagree with the explanation, come see me during my office hours to appeal your Request. Please note the odds are fairly low that I will overturn the original grade, but it is possible if there is a relatively severe misunderstanding.

Tips for Being Successful in ECON 485

- Prepare for each lecture by completing all assigned readings and preparing any related discussion questions.
- Review the material immediately after it is presented and bring any questions you may have to my attention. I will dedicate the first few minutes of every class to answering questions.
- Do the suggested problems at the end of each chapter. The answers to the questions from Kesenne can be found in the back of the book.
- If you find that you are having particular difficulty with any of the material in this course, then get help immediately. *Do not let it build up.* It is expected that you will have completed the readings and reviewed your notes BEFORE a scheduled meeting. Many students will wait until the last minute to get help and put

extraordinary demands on my time. I have weekly office hours so please take advantage of them. It is impossible for me to drop everything and dedicate all of my time before an exam to procrastinating students.

Calendar and Reading List: You are expected to have all assigned readings completed before the material is presented. The entire chapter is to be read unless otherwise noted. Please expect to have additional readings throughout the semester.

I. Introduction and Organizing Competition

- Kesenne, Chapter 1
- Szymanski, Chapters 1 and 2
- Ronald G. Ehrenberg and Michael L. Bognanno, 1990. "Do Tournaments Have Incentive Effects?" *The Journal of Political Economy*, Vol. 98, No. 6, pp. 1307-1324.
- Lawrence M. Kahn, 2007. "Cartel Behavior and Amateurism in College Sports," *Journal of Economic Perspectives*, Vol. 21, No. 1, pp. 209-219.
- Stephen Morrow and Catherine Idle, 2008. "The Challenge of Modernizing a Professional Sport: A Case Study of Professional Road Cycling," in International Cases in the Business of Sport, edited by Chadwick and Arthur, pp. 45-59.
- Stephen F. Ross and Stefan Szymanski, 2002. "Open Competition in League Sports," *Wisconsin Law Review*, Vol. 3, pp. 625-56.
- Stefan Szymanski, 2012. "Economics of League Design," in The Oxford Handbook of Sports Economics: The Economics of Sports Volume 1, edited by Kahane and Shmanski.

II. Sports and Antitrust

- Szymanski, Chapter 3
- Blair, R. D. (2012). Sports Leagues and Antitrust Policy. *Sports Economics* (pp. 175–197). USA: Cambridge University Press.
- Liptak, A., & Belson, K. (2010, May 24). N.F.L. Fails in Its Request for Antitrust Immunity. *The New York Times*.
- Andrew Zimbalist, 2009. "The BCS, Antitrust and Public Policy," *The Antitrust Bulletin*, Vol. 54, No. 4, pp. 823-855.

III. Sports Product Market

- Kesenne, Chapter 2
- Szymanski, Chapter 5
- Anthony C. Krautmann and David J. Berri, 2007. *Journal of Sports Economics*, Vol. 8, No. 2, pp. 183-191.

IV. Sports and the Public Purse

- Szymanski, Chapter 6
- Victor A. Matheson, (2008). Mega-Events: The Effect of the World's Biggest Sporting Events on Local, Regional, and National Economies. *The Business of Sports, Volume 1* (pp. 81–99). Westport, CT: Praeger Perspectives.
- Victor A. Matheson and Robert A. Baade (2004). "Mega-Sporting Events in Developing Nations: Playing the Way to Prosperity?" *The South African Journal of Economics*, Vol. 72, No. 5, pp. 1085-1096.
- Andrew Zimbalist. "A Miami Fish Story," *New York Times*, October 18, 1998.

Midterm Exam is on October 2nd at 8:00am

V. Player Labor Market

- Kesenne, Chapter 3 (pp. 30 – 42; pp. 49-57; and skim remarks on pp. 42-47); Chapter 5
- Jahn K. Hakes and Raymond D. Sauer, 2006. “An Economic Evaluation of the *Moneyball* Hypothesis,” *Journal of Economic Perspectives*, Vol. 20, No. 3, pp. 173-185.
- Erin Lane, Juan Nagel, and Janet S. Netz, 2014. “Alternative Approaches to Measuring MRP: Are All Men’s College Basketball Players Exploited?” *Journal of Sports Economics*, Vol. 15, No. 3, pp. 237-262.
- Gerald W. Scully (1974). “Pay and Performance in Major League Baseball,” *The American Economic Review*, Vol. 64, No. 6, pp. 915-930.

VI. Impact of League Policy on Competitive Balance

- Kesenne, Chapter 6 (pp. 101-114; skim remarks), Chapter 7 (ignore “two-decision variable model)
- Stefan Kesenne (2000). “The Impact of Salary Caps in Professional Team Sports,” *Scottish Journal of Political Economy*, Vol. 47, No. 4, pp. 422-430.

VII. Competitive Balance and Outcome Uncertainty

- Dennis Coates, Brad R. Humphreys and Li Zhou, 2014. “Reference-Dependent Preferences, Loss Aversion, and Live Game Attendance,” *Economic Inquiry*, Vol. 52, No. 3, pp. 959-973.
- Brad R. Humphreys, 2002. “Alternative Measures of Competitive Balance in Sports Leagues,” *Journal of Sports Economics*, Vol. 3, No. 2, pp. 133-148.
- Data Assignment will be distributed.

VIII. Discrimination and Gender Equity

- Grant, R. R., Leadly, J., & Zygmunt, Z. (2008). *Race and Gender Issues in Intercollegiate Sports. The Economics of Intercollegiate Sports* (pp. 385–444). Hackensack, NJ: World Scientific.
- Lawrence M. Kahn, 1991. “Discrimination in Professional Sports: A Survey of the Literature,” *Industrial and Labor Relations Review*, Vol. 44, No. 3, pp. 395-418.

IX. Performance Enhancing Drugs

- Kjetil K. Haugen, 2004. “The Performance-Enhancing Drug Game,” *Journal of Sports Economics*, Vol. 5, No. 1, pp. 67-75.
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Final Exam is on December 11th at 8:00am

Disclaimer: Although the instructor intends to follow this syllabus as closely as possible, there may be times when deviations from the material presented herein are necessary.

Explanation of “In-Class Polls” Grading

Below is an explanation of how the Poll Everywhere questions will be graded. Essentially there will be two types of questions asked: 1) graded questions; and 2) polling questions.

“*Graded questions*” are multiple choice questions where there is only one correct answer. “*Polling questions*” do not have correct answers. Examples include questions like, “Should the NCAA be treated as a non-profit organization?” and “Should performance enhancing drugs be permitted in sport?”

Grading Procedure:

- I understand that you may not be able to participate in some polls because you missed class, forgot your polling device, and/or had technical difficulty. Missed polls cannot be made-up. This holds regardless of your excuse (e.g. university/athletics commitment, job interview, sickness, technical malfunction, etc.). It’s OK though because only the highest 85% of your polls will be allocated toward your “In-Class Polls” grade. I expect to do at least 100 polls during class this semester. In the event that we do 100 polls, for example, your poll grade will only be based on your highest 85 polls. In other words, you can miss 15 polls without incurring a penalty.
- Possible scores on any given “graded question” include:
 - 100% (you answered the question correctly)
 - 50% (you answered the question incorrectly)
 - 0% (you did not answer the question)
- Possible scores on any given “polling question” include:
 - 100% (you answered the question)
 - 0% (you did not answer the question)

Starting Tuesday, August 26th, all poll responses will be graded according to the procedures outlined in this document.

Registration instructions for Poll Everywhere can be found at <http://help.unc.edu/help/poll-everywhere-faq/>

- ***If you do not register properly, then your polls will not be counted.*** Please verify that you have registered correctly (see the PE FAQ for more info). If you have not used PE in a course since Fall 2012, then you will need to edit your registration information.