Description and Scope

This undergraduate 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 and statistics.
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**


**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


D: *Competitive balance: evidence*

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


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

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


F. *Incentive effects of promotion and relegation*


**LABOR MARKET ISSUES**

A. *Pay and performance*

Downward and Dawson, Chapters 9 and 10


**B. Tournament theory and optimal compensation**


**C. Empirical research on tournaments**

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


**D. Principal-agent problems**


**COLLEGE SPORTS**

**A. College athletics and university finance**


B. College athletes and pay


MARKET FOR SPORTS BETTING

A. Microeconomic theory and gambling


B. Home field advantage


C. The Hot Hand in basketball


D. Point shaving in college basketball


E. Football market efficiency