

Economics of Sport - Hard Facts

Economics Of Sport · Answer Key · 16 Questions

1. What is the primary economic characteristic that distinguishes major professional sports leagues (like the NFL, NBA, MLB, NHL) in the United States from most other industries?

- A) High degree of product differentiation
- B) Existence of a strong cartel structure leading to a monopoly or monopsony power**
- C) Predominance of perfectly competitive markets
- D) Very low barriers to entry for new teams

2. In the context of sports, what does the term 'reserve clause' historically refer to, and what was its significant economic impact on player salaries?

- A) A clause that guaranteed players a minimum salary, increasing overall player earnings.
- B) A clause that limited player movement and effectively gave team owners perpetual rights to a player's contract, suppressing salaries.**
- C) A clause that mandated revenue sharing between players and owners, ensuring fair distribution.
- D) A clause that allowed players to negotiate individual endorsement deals, boosting their income.

3. Which of the following is the most significant source of revenue for most major professional sports leagues globally?

- A) Ticket sales
- B) Merchandise sales
- C) Media rights (broadcasting and digital streaming)**
- D) Sponsorship and advertising deals

4. The economic concept of 'moral hazard' in sports is most directly observable in which of the following scenarios?

- A) A star player deliberately underperforming to negotiate a better future contract.**
- B) A team owner investing heavily in player development, knowing it will increase franchise value.
- C) A league implementing salary caps to control spending.
- D) A fan boycotting games due to rising ticket prices.

5. When discussing the economic impact of hosting major sporting events (e.g., Olympics, World Cup), what is a commonly cited criticism of traditional economic impact studies?

- A) They often overestimate job creation by ignoring multiplier effects.
- B) They tend to underestimate tourism revenue.
- C) They frequently fail to account for substitution effects and opportunity costs, leading to inflated net benefits.**
- D) They do not consider the increased demand for local goods and services.

6. What is the primary economic rationale behind the implementation of 'salary caps' in professional sports leagues?

- A) To maximize profits for the league's owners
- B) To ensure competitive balance by preventing perennial powerhouse teams from accumulating all the top talent**
- C) To decrease the overall salary expenditure for all teams
- D) To increase the attractiveness of the league to potential investors

7. The 'Henderson' rule, introduced in Major League Baseball, is a clear example of a policy designed to address which economic issue?

- A) Player drug use and performance enhancement
- B) The economic disparity between large-market and small-market teams**
- C) The high cost of stadium construction
- D) The declining viewership of baseball

8. In the economics of sports, what does the term 'monopsony' power refer to, and how does it typically manifest?

- A) A single seller dominating the market, like a league selling broadcast rights.
- B) A single buyer dominating the market, allowing them to dictate terms (e.g., player salaries) to multiple sellers (players).**
- C) Many buyers and many sellers leading to price competition.
- D) A market with few dominant sellers and few dominant buyers.

9. Which economic factor is most consistently cited as a significant driver of the enormous salaries paid to elite athletes in major professional sports?

- A) High unionization rates among players
- B) The global reach and enormous fan base attracted by star players, leading to high demand for their 'product' (performance and associated marketing)**
- C) The limited number of skilled athletes available worldwide
- D) Government subsidies for sports organizations

10. The economic concept of 'rent-seeking' in sports is best exemplified by which of the following actions?

- A) A team owner investing in new stadium technology to improve fan experience.
- B) A sports agent negotiating the best possible contract for their client.
- C) A sports franchise lobbying government for public stadium subsidies, often using economic impact studies that overstate benefits and downplay costs.**
- D) A player working with a trainer to improve their athletic performance.

11. What is the primary economic argument against the extensive use of public funds for building new professional sports stadiums?

- A) Public funds are more efficiently allocated to education and healthcare.
- B) Stadiums are often underutilized outside of game days, providing a poor return on investment for taxpayers.
- C) The economic benefits (job creation, increased tax revenue) are often exaggerated and do not outweigh the opportunity costs and direct subsidies.**
- D) Private sector financing is generally more effective for such projects.

12. The 'reserve system' in early professional baseball (pre-free agency) is a historical economic example of:

- A) A perfectly competitive labor market
- B) An oligopoly in player services
- C) A cartel-like structure where owners colluded to restrict labor mobility and suppress wages**
- D) A free market with minimal intervention

13. When economists analyze the 'demand for sports', which factor is generally considered the most significant determinant of attendance and viewership?

- A) The price of tickets and concessions
- B) The perceived quality of the game and the star power of the athletes involved**
- C) The availability of alternative entertainment options
- D) The weather on game day

14. The existence of 'luxury boxes' and premium seating in modern stadiums primarily serves to capture economic surplus from which group of consumers?

- A) The average fan
- B) Corporate sponsors and high-net-worth individuals**
- C) Season ticket holders
- D) League executives

15. The economic principle of 'network externalities' is crucial for understanding the value of professional sports leagues because:

- A) More teams in a league lead to lower individual team revenues.
- B) The more fans and viewers a league attracts, the more valuable it becomes to broadcasters, sponsors, and ultimately, the league itself.**
- C) Player salaries are directly proportional to the size of the stadium.
- D) The success of one league has no impact on others.

16. Which of the following is a key component of the 'economic impact' analysis often used to justify public funding for sports facilities?

- A) Estimating the opportunity cost of public funds
- B) Calculating the multiplier effect of visitor spending and associated tax revenues**
- C) Accounting for the displacement of local businesses by new facilities
- D) Assessing the environmental impact of construction