

# Economics of Sport: Factual Foundations

Economics Of Sport · Answer Key · 12 Questions

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**1. According to economic theory, the high salaries in professional sports are primarily a reflection of:**

- A) Union bargaining power and player solidarity.
- B) The inelastic demand for elite sporting talent.
- C) Significant revenue generation capabilities of star athletes.**
- D) Government subsidies for sports teams.

**2. The 'reserve clause' in historical sports contracts, which bound players to a single team indefinitely, is an example of a situation that suppressed:**

- A) Team profitability.
- B) Player bargaining power and created a monopsony labor market.**
- C) Fan attendance.
- D) League expansion.

**3. In sports economics, the concept of 'team dynasties' (e.g., multiple championships in a short period) is often linked to:**

- A) Increased league parity and competitive balance.
- B) The creation of positive externalities for local economies.
- C) The ability to consistently attract and retain top-tier talent due to higher expected future earnings.**
- D) Strict salary caps that prevent large market teams from dominating.

**4. The economic impact studies of hosting major sporting events often face criticism for:**

- A) Overstating the multiplier effect by not accounting for displacement of local spending.**
- B) Underestimating the direct economic benefits to the host city.
- C) Failing to consider the impact on national economies.
- D) Ignoring the positive effects on tourism.

**5. The 'winner's curse' in sports economics refers to the phenomenon where:**

- A) The winning team often overspends on player contracts in the following season.
- B) Teams that win championships tend to lose key players due to free agency.
- C) A team that wins a championship may have paid a price (in terms of draft picks or salary) that outweighs the economic benefits.**
- D) The league's revenue distribution system unfairly penalizes winning teams.

**6. A primary reason for the existence of salary caps in professional sports leagues is to:**

- A) Guarantee profitability for all teams.
- B) Increase player salaries across the board.
- C) Promote competitive balance and prevent large-market teams from dominating.**
- D) Reduce ticket prices for fans.

**7. The economic principle of 'monopoly' in sports leagues, where a league is the sole provider of professional competition within a specific sport and geographic region, allows teams to:**

- A) Face intense competition from rival leagues.
- B) Negotiate freely with players without league oversight.
- C) Have significant market power in setting prices for tickets and broadcasting rights.**
- D) Experience lower revenue streams.

**8. In the context of sports broadcasting rights, the value is largely determined by:**

- A) The number of teams in the league.
- B) The perceived quality of the athletes and the viewership interest generated.**
- C) The historical performance of the league.
- D) The number of individual games played each season.

**9. The concept of 'derived demand' in sports economics explains that the demand for players is ultimately a function of:**

- A) The number of fans attending games.
- B) The profitability of the league.
- C) The demand for the sport itself by consumers (fans).**
- D) The salaries of coaches.

**10. The economic argument for public funding of sports stadiums often centers on:**

- A) The creation of private wealth for team owners.
- B) The generation of substantial tax revenue that offsets public investment.
- C) The belief that stadiums create positive economic externalities like job creation and increased tourism.**
- D) Ensuring that all teams have access to state-of-the-art facilities.

**11. The 'free-rider problem' can be observed in sports fandom when:**

- A) Teams consistently fail to win championships.
- B) Fans enjoy the benefits of a successful team (e.g., city pride, social engagement) without directly contributing financially to its success.**
- C) Broadcasting rights are too expensive for average fans.
- D) League revenue is not equitably distributed.

**12. The 'substitution effect' in sports economics is evident when:**

- A) A team invests heavily in player development.
- B) Fans switch their allegiance from one team to another due to a player's performance.
- C) The price of tickets for one sport increases, leading fans to attend more games of another sport.**
- D) A new technology enhances player performance.