Economics of Sport Essentials

Economics Of Sport · Practice Test · 18 Questions

1. What is the primary economic reason professional sports leagues often operate as closed systems with no promotion or relegation?

A) To increase the number of participating teams
B) To protect the investment of franchise owners and ensure financial stability
C) To maximize the total number of matches played
D) To increase the geographical diversity of the talent pool

2. In sports economics, what does the term 'Competitive Balance' primarily refer to?

A) The parity of physical strength between athletes
B) The distribution of playing talent across teams in a league
C) The ratio of home wins to away wins
D) The financial parity between league officials and players

3. Which economic model describes the behavior of teams in a sports league where they must cooperate to produce the 'product' (the game) while simultaneously competing for victory?

A) Perfect competition
B) Monopolistic competition
C) Coopetition
D) Oligopolistic collusion

4. The 'Winner's Curse' in professional sports bidding for free agents suggests that teams often:

A) Overpay for talent due to incomplete information and competitive pressure
B) Underestimate the value of defense in team sports
C) Focus exclusively on revenue-sharing rather than winning
D) Always negotiate fair market value contracts

5. According to the 'Invariance Principle' in sports economics (related to the Coase Theorem), the allocation of player talent between teams:

A) Is entirely dependent on the salary cap
B) Is independent of the initial distribution of property rights (e.g., reserve clauses)
C) Always favors teams in larger media markets
D) Decreases when ticket prices are regulated

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6. What is the most significant economic source of revenue for most major professional sports leagues in the 21st century?

A) Concession sales
B) Broadcasting and media rights
C) Merchandise licensing
D) Ticket sales

7. The 'Rottenberg-Fort Hypothesis' suggests that in a market for professional athletes, talent will naturally migrate to:

A) Teams with the most efficient coaches
B) Teams in the smallest media markets
C) Teams with the highest willingness to pay
D) Teams with the best training facilities

8. What is the economic purpose of a 'luxury tax' in professional sports leagues?

A) To fund the expansion of league headquarters
B) To discourage excessive spending on player payrolls and redistribute wealth
C) To tax the tickets sold by winning teams
D) To regulate the sale of team merchandise

9. Which economic concept explains why sports stadiums often fail to generate the projected long-term economic growth for their host cities?

A) The multiplier effect
B) The substitution effect
C) The law of diminishing returns
D) Absolute advantage

10. In sports labor economics, what is the 'Reserve Clause'?

A) A rule requiring teams to keep a minimum number of substitute players
B) A contractual provision that binds a player to a team indefinitely
C) A rule that reserves seats for stadium employees
D) A rule setting the minimum salary for rookie players

11. What economic phenomenon occurs when the addition of a superstar player increases the team's revenue more than the cost of their contract?

A) The superstar externality
B) The marginal revenue product of labor
C) The substitution effect
D) The sunk cost fallacy

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12. Sports leagues are often granted antitrust exemptions to allow for:

A) Monopoly pricing on concessions
B) Collusive behavior like revenue sharing and drafting rules
C) Ignoring player safety regulations
D) Avoiding taxes on stadium construction

13. What is meant by 'Gate Revenue' in professional sports?

A) Revenue from stadium advertising
B) Income generated from ticket sales to spectators
C) Income from the sale of team apparel
D) Revenue sharing between league owners

14. Which economic theory states that sports teams are often 'utility maximizers' rather than strictly 'profit maximizers'?

A) The principle of diminishing utility
B) The Win-Maximization model
C) The supply-demand equilibrium
D) The comparative advantage theory

15. What is the economic impact of 'Salary Caps' on player wages?

A) They always increase total league payroll
B) They act as a downward constraint on the competitive bidding for labor
C) They have no impact on individual player earnings
D) They ensure players are paid above their marginal revenue product

16. Why do sports leagues generally prefer a 'Closed' league structure over an 'Open' (promotion/relegation) structure in the United States?

A) It maximizes the number of teams promoted
B) It provides a guaranteed return on investment for owners by eliminating relegation risk
C) It allows for more frequent change in league membership
D) It simplifies the drafting of new talent

17. What does the 'Substitution Effect' mean in the context of stadium public funding?

A) Residents spend their entertainment budget at the stadium instead of other local businesses
B) Teams substitute older players for younger ones
C) Fans substitute home games for away games
D) The government substitutes private funding with public grants

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18. Which of the following is a classic characteristic of a sports team as a 'natural monopoly' in a specific geographical market?

A) They face intense competition from local minor league teams
B) They are the sole provider of top-tier professional play in their region
C) They operate under perfect competition
D) They have no control over ticket pricing

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