Advanced Economics of Sport

Economics · Practice Test · 18 Questions

1. What is the primary purpose of the 'Draft' system used in professional sports leagues from an economic efficiency perspective?

A) To ensure absolute equality of ticket pricing
B) To suppress player wages and promote competitive balance
C) To maximize total league broadcasting revenue instantly
D) To eliminate the need for secondary ticket markets

2. In the context of sports broadcasting, what term describes the phenomenon where a broadcaster pays a premium for exclusive rights to prevent competitors from entering the market?

A) Natural monopoly
B) Barriers to entry
C) Monopsonistic competition
D) Vertical integration

3. Which economic concept explains why professional sports teams often rely on 'stadium subsidies' funded by local government tax revenues?

A) Positive externalities
B) Comparative advantage
C) Diminishing marginal utility
D) Law of demand

4. What is the definition of a 'Hard Salary Cap' in a sports league?

A) A limit that can be exceeded by paying a luxury tax
B) A non-negotiable ceiling on total team payroll
C) A minimum wage requirement for all players
D) A cap that only applies to international signings

5. The 'Winner's Curse' in professional sports bidding for free agents most often occurs because of:

A) Perfect information among team managers
B) Overestimation of an athlete's marginal revenue product
C) Strict adherence to salary caps
D) Government intervention in player transfers

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6. What is the main economic argument against 'Single-Entity' league structures?

A) It eliminates intra-league competition
B) It increases administrative overhead costs
C) It prevents the formation of rival leagues
D) It promotes excessive player mobility

7. Which of these describes the 'Substitution Effect' regarding sports stadium attendance?

A) Fans spending money on sports instead of other local entertainment
B) Fans attending more games because tickets are cheaper
C) Fans travelling from other cities to watch a game
D) Fans buying team merchandise instead of tickets

8. In sports economics, what does the 'Marginal Revenue Product of Labor' (MRPL) specifically measure?

A) The total cost of scouting a player
B) The additional revenue a player generates for the team
C) The total salary paid to a player over a contract
D) The tax revenue generated by a player's jersey sales

9. Which economic model describes a league where team owners act as a single profit-maximizing entity rather than independent competitors?

A) Cartel model
B) Oligopoly model
C) Perfect competition model
D) Monopolistic competition model

10. What is the economic implication of the 'Invariance Principle' (or Rottenberg-Coase theorem) in professional sports player transfers?

A) Talent will always migrate to the highest-revenue market regardless of rules
B) Player distribution is independent of the initial allocation of property rights
C) The league must intervene to redistribute talent for balance
D) Ticket prices are unrelated to player salaries

11. What is a 'Luxury Tax' in sports economics intended to achieve?

A) To generate government tax revenue
B) To act as a soft cap to discourage excessive spending on rosters
C) To replace the draft system entirely
D) To provide tax breaks for stadium construction

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12. Which factor most significantly influences the 'Price Elasticity of Demand' for professional sports tickets?

A) The team's win-loss record
B) The number of available substitutes
C) The color of the team jerseys
D) The age of the stadium

13. What characterizes a 'Natural Monopoly' in the sports industry?

A) A league with only one team
B) A team that is the only provider of sports in a specific region
C) High fixed costs making competition inefficient
D) A league that owns all its stadiums

14. What does the 'Competitive Balance Index' measure in a sports league?

A) The distribution of wins among teams
B) The equality of player salaries
C) The efficiency of the draft system
D) The profitability of the smallest-market teams

15. Which term refers to the restriction of supply by sports leagues to maintain high ticket prices?

A) Price ceiling
B) Price floor
C) Collusion
D) Exclusivity

16. What is an example of 'Price Discrimination' in sports ticket sales?

A) Charging different prices based on seat location and timing
B) Charging everyone the same price for a ticket
C) Giving away free tickets to sponsors
D) Banning resale of tickets

17. Why do sports leagues often benefit from 'Anti-Trust Exemptions'?

A) To lower ticket prices for consumers
B) To allow teams to cooperate on broadcasting rights and rules
C) To prevent international players from joining the league
D) To increase the number of teams in the league

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18. Which economic phenomenon is represented by the 'Multiplier Effect' in sports infrastructure spending?

A) The total tax revenue generated by the stadium
B) The subsequent rounds of spending in the local economy by stadium visitors
C) The increase in professional athlete salaries
D) The decrease in local business competition

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