

12-39b.
UWUCL AP-9/25/12
Senate Info. - 10/9/12

Undergraduate Distance Education Review Form

(Required for all courses taught by distance education for more than one-third of teaching contact hours.)

Existing and Special Topics Course

Course: ECON 239: Economics of Sports

Instructor(s) of Record: Todd Potts

Phone: 724-357-4770 Email: potts@iup.edu

Step Two: Departmental/Dean Approval

Recommendation: Positive (The objectives of this course can be met via distance education)

Negative

[Signature] 9/17/12
Signature of Department Designee Date

Endorsed: [Signature] 9/19/12
Signature of College Dean Date

Forward form and supporting materials to Liberal Studies Office for consideration by the University-wide Undergraduate Curriculum Committee. Dual-level courses also require review by the University-wide Graduate Committee for graduate-level section.

Step Three: University-wide Undergraduate Curriculum Committee Approval

Recommendation: Positive (The objectives of this course can be met via distance education)

Negative

[Signature] 9/26/12
Signature of Committee Co-Chair Date

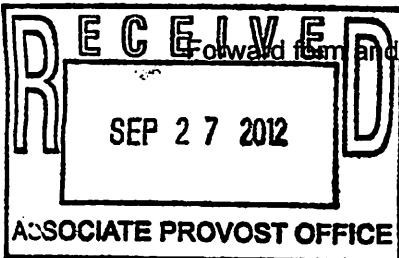
Forward form and supporting materials to the Provost within 30 calendar days after received by committee.

Step Four: Provost Approval

Approved as distance education course Rejected as distance education course

[Signature] 10/1/12
Signature of Provost Date

Forward form and supporting materials to Associate Provost.



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Liberal Studies

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SEP 20 2012
Liberal Studies

Distance Education Proposal for ECON 239: Economics of Sports

A1. How is the instructor qualified in the distance education delivery method as well as the discipline?

I hold a Ph.D. in Economics from the University of Georgia and have been a professor in the Economics department at IUP since 2002. Furthermore, I have taught ECON 239: Economics of Sports each spring since 2004. Additionally, the area of sports economics has become one of my main research interests – I currently have a paper on governance and national Olympic success under review at the *Journal of Sports Economics*, the preeminent sports economics journal in the world, and I am on the program to present another working paper on gender equality and Olympic success at the *International Atlantic Economic Society's* annual meeting in Montreal this October.

With regard to distance education, I have taught multiple online sections of ECON 122: Principles of Microeconomics and four of the six in-class courses that I regularly teach: ECON 121: Principles of Macroeconomics, ECON 122: Principles of Microeconomics, ECON 325: Monetary Economics I, and ECON 421: Macroeconomic Analysis each have a substantial online component, comprised of homework problems, e-textbooks, and links to outside news articles, blogs, etc. I have also attended Desire2Learn workshops put on by IT services.

A2. How will each objective of the course be met using distance education technologies?

Objective 1: Students will be able to demonstrate knowledge of fundamental economic concepts, particularly in how these concepts relate to the sports industry.

Students will read chapters 1 and 2 in Leeds and Von Allmen's, *The Economics of Sports* (which will be available in hard copy at the IUP bookstore and electronically via CourseSmart) as well as review the associated power point slides provided via email or the learning management system (LMS). This material presents an overview of basic economics as well as an introduction to the field of economics and ties basic concepts to sports using effective anecdotes and real-world examples. Students will then complete objective quizzes over each chapter (1 & 2) delivered via the LMS. Additionally, I will provide a blog post from thesportseconomist.com that links to a New York Times article about variable ticket pricing in Major League Baseball's post season and I will have the students write and email a 2-3 page paper explaining the rational and application of using variable ticket pricing, appealing to the concept of price elasticity of demand covered in chapter 2 of the text and in the power point slides. Finally, I will ask the students to post on the message board an example of how they have observed at least one fundamental economic concept manifest in the sports world.

Objective 2: Students will be able to analyze differences in organizational structure across the major American sports leagues, such as the generation and distribution of revenues, restrictions on player salaries, and the promotion of competitive balance.

Students will read chapters 3 and 5 in Leeds and Von Allmen's, *The Economics of Sports* and review the associated power point slides provided via email or the learning management system (LMS). Chapter 3 introduces students to the concept of sports franchises as profit-maximizing entities and teaches students the sources of revenues and costs for these franchises. Furthermore, students are taught, via the text and the power point slides, the differences in how each of the four major American sports franchises generates revenue and how they distribute it among the member teams. Chapter 5 teaches students why leagues take measures to promote competitive balance and the basic tools we use to measure competitive balance. Also, students learn the techniques employed by various sports leagues to achieve this balance, such as salary caps, salary floors, revenue sharing, etc., and the pros and cons of each.

After reading each chapter, students will take an objective quiz delivered via the LMS. To provide further real-world context, I will next have the students go to Forbes.com to download the most recent data on team valuation and revenue and to write a 2-3 page paper outlining the most valuable and least valuable sports teams and leagues, and to compare the distribution of revenues among teams in the league to the distribution of winning percentage to see if there is a link between equality of revenues and competitive balance. Finally, to promote reflection on what they have learned, I will post some or all of the following questions on the message board for students to respond to: Should the goal of a franchise be to maximize profit or wins? Are these always at odds? Should perfect parity among teams be the goal of a league? Why or why not?

Objective 3: Students will be able to discuss the interplay between sports leagues and antitrust policy and the seminal court cases that have led to full and/or partial exemptions to federal antitrust laws for certain leagues.

Students will read chapter 4 in Leeds and Von Allmen's, *The Economics of Sports* and review the associated power point slides provided via email or the learning management system (LMS). Chapter 4 teaches students how to analyze the economic effects of a having only a single seller in the market and analyzes whether or not sports teams and leagues can and should be viewed as having this market structure. Additionally, the text and associated power point slides review four key court cases that have led to Major League Baseball's curious exemption from Federal Antitrust Laws as well and critically analyze the ruling and opinions rendered by the courts in each case. After reading the chapter and reviewing the power point slides, students will take an objective quiz via the LMS. To provide further application of the material presented in the text and slides, students will be presented with a chapter from J.C. Brabdury's *The Baseball Economist: The Real Game Exposed* that assesses whether or not MLB actually behaves like a monopolist, given its anti-trust exemption. To promote reflection and discussion, I will ask students on the message board to explain whether or not they feel that Pittsburgh professional sports teams are a monopoly, and if so, what types of consequences (positive and/or negative) do Pittsburgh sports fans face.

Objective 4: Students will be able to compare and contrast the various funding mechanisms state and local municipalities have used to attract and/or keep a sports franchise as well as critically analyze the economic benefits of a sports franchise to a city.

Students will read chapters 6 and 7 in Leeds and Von Allmen's, *The Economics of Sports* and review the associated power point slides provided via email or the learning management system (LMS). Chapter 6 teaches students how the market for sports franchises differs from traditional markets for goods and services as well as the lengths that cities go to in order to obtain and keep a franchise. Students also learn how the history of the public finance of sports changed when the Dodgers moved from Brooklyn to Los Angeles as well as the associated ramifications of this move. Chapter 6 also introduces students to common funding methods used by municipalities to build new stadiums in order to obtain or keep a franchise and how the evolution of public finance in sports has actually changed the names, shapes, sizes, and locations of stadiums over the years. Additionally, strategies employed by sports leagues and teams (and events such as the Olympics and the World Cup) aimed at extracting payments from local municipalities are examined.

Chapter 7 teaches students to use the economic way of thinking to critically evaluate the costs and benefits of a franchise to a city, including but not limited to: potential multiplier effects of new spending, the substitution effect of a new sports teams on other forms of entertainment, the positive and negative externalities associated with a sports teams, and the costs to future generations of debt-financed stadiums. Also, the typical arguments made by teams and politicians in order to persuade citizens to use public funding to attract or keep a franchise are presented and students are taught to critically analyze said arguments.

Students will once again take an objective quiz on each chapter upon completion of the readings and review of the power point slides. To provide context and a real world application, multiple blog posts from thesportseconomist.com that link to news articles regarding the recent debate in Minnesota on whether or not to publically finance a new stadium for the Vikings will be provided to the class. Students will be required to submit a 2-3 page paper that explains and defends their own opinion on whether or not taxpayers should foot the bill to attract or keep a sports franchise. Finally, I will generate class discussion via the message board by asking the class how much each of them would be willing to pay out of their salary to keep their favorite sports team in their town, as well as their motivation for their willingness to make this sacrifice.

Objective 5: Students will be able to demonstrate an understanding of the labor market in professional sports, particularly the determination of player salaries and key disputes between player unions and league management.

Students will read chapters 8 and 9 in Leeds and Von Allmen's, *The Economics of Sports* and review the associated power point slides provided via email or the learning management system (LMS). Chapter 8 introduces students to basic labor economics so

that they can better understand the market-determination of player salaries. Specifically, students are taught the concept of marginal-revenue product of labor and that teams have an incentive to pay players up to the amount that they contribute to revenue. Additionally, students will be shown how to analyze the impact of various shocks on the market for labor in a particular sport, such as the emergence of a highly popular athlete such as a Michael Jordan or Tiger Woods (pre-scandal). Chapter 9 presents the concepts of monopsony (single buyer) and unions in the market for sports talent and teaches the students the impact that each of these forces can have on wages and employment. Also, the power point slides illustrate how the National Football League calculates its per-team salary cap and instructs students on how to calculate an individual player's "cap-charge" given a new contract. The students will take an objective quiz after reading the text and the power point slides. Each student will then be required to write a 2-3 page paper comparing and contrasting the NFL's salary cap system to a similar system utilized in a professional sports league of their choosing. Finally, directed message board discussion will have the students weighing in on whether or not they think that salary controls are fair to the players and, if not, why would a players union accept such a proposal.

A3. How will instructor-student and student-student, if applicable, interaction take place?

I will be available to the students via email at all times and I will be using an application called OmniGraphSketcher which will allow me to quickly draw graphs and convert them to email-able picture files should students need assistance with diagrams and analytics. Additionally, I will be available for "video office hours" through Skype and G-chat (Google) at pre-determined days and times, which will vary according to the semester in which the course is taught (I have accounts on both of these platforms, but will – in all likelihood – create new course-specific accounts to maintain privacy). Note that I will not be requiring students to have video-chat capabilities, but those that do can reach me in this way. Students will also be encouraged to call my office phone if they have pressing questions/concerns.

Student-student interaction will take place via the message board on the LMS. Students will be required to reply to both mine and each other's posts regarding outside readings as part of their grade and students will be encouraged to use the message board to ask questions and help each other study as often as possible. Of course, I will be monitoring all posts and any inappropriate postings will be dealt with accordingly.

A4. How will student achievement be evaluated?

An objective midterm and final to be administered through the LMS will each count for 25% of the course grade (50% total). Also, the overall average score on the nine chapter-quizzes will count for 20% of the overall grade. The student's average grade on the five 2-3 papers on each course objective will count for 15%, and message-board participation will count for the final 15%. I will grade message board participation in the following manner: a student will receive full credit for message board participation (100%) if, for

***each* of the five topics I post, the student posts at least one (full-sentence) response to my original post and one (full-sentence) response to another student's response. This amounts to a minimum of two posts per-topic. For each post missing for a topic, I will deduct 10% from the participation grade.**

In summary:

Mid-Term: 25%

Final Exam: 25%

Quizzes (nine total): 20%

Writing Assignments on Outside Readings (five total): 15%

Message Board Participation (five total topics): 15%

The following grading scale will be used:

A: 90% and over, B: 80%-89%, C: 70%-79%, D: 60%-69%, F: below 60%

A5. How will academic honesty on tests and assignments be addressed?

The midterm and final exams will be timed, and each question on the exams and objective quizzes will be pulled from one of a few very-similar questions associated with the problem. This will make it *highly* unlikely that two students will have the same exam, but all exams will be similar and have the same level of difficulty.

For the short writing assignments, I will use Turnitin to check for plagiarism and if an assignment seems questionable I will Google certain passages to ascertain whether or not the work is original.

ECONOMICS 339: The Economics of Sports
Distance Education Syllabus
Indiana University of Pennsylvania

Dr. Todd Potts
potts@iup.edu

Course Description: Introduces and develops the economic way of thinking as it applies to the sports industry. Topics covered include: the organizational structure of the major American sports leagues (e.g., revenue sharing, salary restrictions, and competitive balance), labor issues in sports (e.g., free agency, reserve clause, unions, strikes, and discrimination), the legal relationship between sports and governments (e.g., antitrust law), and public finance issues (e.g., location of sports franchises and public ownership of stadiums and arenas).

Course Material:

Textbook: Leeds, M., and Von Allmen, P. (2011). *The Economics of Sports* (4th ed.). Pearson Addison-Wesley.

New hard copies the book will be available at the IUP Bookstore. Alternatively, you can purchase an e-text through CourseSmart via the following website:
<http://www.coursesmart.com/the-economics-of-sports-fourth-edition/michael-a-leeds-peter-von-allmen/dp/9780138009335>.

Other Materials: You will need a computer with access to the Internet.

Course Objectives: Upon completion of this course, students will be able to...

1. Demonstrate knowledge of fundamental economic concepts, particularly in how these concepts relate to the sports industry.
2. Analyze differences in organizational structure across the major American sports leagues, such as the generation and distribution of revenues, restrictions on player salaries, and the promotion of competitive balance.
3. Discuss the interplay between sports leagues and antitrust policy and the seminal court cases that have led to full and/or partial exemptions to federal antitrust laws for certain leagues.
4. Compare and contrast the various funding mechanisms state and local municipalities have used to attract and/or keep a sports franchise as well as critically analyze the economic benefits of a sports franchise to a city.
5. Demonstrate an understanding of the labor market in professional sports, particularly the determination of player salaries and key disputes between player unions and league management.

Course Plan: For each objective listed above, you will...

- a. Read the relevant chapter(s) in the text as well as the power-point slides provided
- b. Complete an quiz over each chapter and set of power points pertaining to the objective via D2L
- c. Write and submit a 2-3 page paper on outside material provided by your instructor that will give real-world context/application
- d. Participate in an online discussion of the outside material that you wrote about via the message board feature on D2L.

You will also take an objective mid-term and a non-cumulative final exam. Collectively, these two exams will cover all material presented in the class.

Course Grade: The course grade is determined as follows:

Mid-Term: 25%

Final Exam: 25%

Quizzes (nine total): 20%

Writing Assignments on Outside Readings (five total): 15%

Message Board Participation (five total topics): 15%

How Will Message Board Participation be Graded? Grading something as vague as “participation” can be difficult, but since this is to count for your grade, some kind of objectivity is needed. Your posts will be regarding outside material (such as a news article) that I distribute via email/D2L. I will then post a start-up question/statement pertaining to the outside reading to get the ball rolling. To receive full participation credit, you will be expected to make at least two posts for *each of the five topics*: one post directly responding to the “start-up” question that I post and another post commenting on someone else’s post. Each post should consist of at least two complete sentences. For each topic that you do not participate in, I will deduct 20% from your participation grade. Of course, you are encouraged to post on the message board as often as you’d like.

The following grading scale will be used:

A: 90% and over, B: 80%-89%, C: 70%-79%, D: 60%-69%, F: below 60%

Office Hours: I regularly check my email and you are welcome to email me anytime/any day. In addition, I will be available for video conferencing via Skype and Google chat (usernames to be distributed via D2L once the class roster is finalized) and will be regularly reading and responding to questions on the course message board.

Course Outline:

<i>Chapter/Topic/Assignment</i>	<i>Course Objective</i>
Chapter 1: Economics and Sports – with quiz	Objective #1
Chapter 2: Review of the Economists Arsenal – with quiz	Objective #1
(Outside Material) Applications of the Demand for Tickets: Price Elasticity of Demand and Gate Revenue and Variable Ticket Pricing – with paper assignment and discussion	Objective #1
Chapter 3: Sports Franchises as Profit-Maximizing Firms – with quiz	Objective #2
Chapter 5: Competitive Balance – with quiz	Objective #2
(Outside Material) League-by-League Revenue, Valuation, Profit, and Competitive Balance – with paper assignment and discussion	Objective #2
Chapter 4: Monopoly and Antitrust – with quiz	Objective #3
(Outside Material) Is Major League Baseball a Monopoly? – with paper assignment and discussion	Objective #3
Midterm Exam	Objectives #1, #2, and #3
Chapter 6: The Public Finance of Sports: The Market for Teams – with quiz	Objective #4
Chapter 7: The Costs and Benefits of a Franchise to a City – with quiz	Objective #4
(Outside Material) Arguments For and Against Using Public Funding to Attract and/or Keep a Sports Team – with paper assignment and discussion	Objective #4
(Outside Material) The NFL Salary Cap and Key Disputes Between NFL Players and NFL Owners – with paper assignment and discussion	Objective #5
Chapter 8: An Introduction to Labor Markets in Professional Sports – with quiz	Objective #5
Chapter 9: Labor Market Imperfections – with quiz	Objective #5
Final Exam	Objectives #4 and #5

Bibliography:

Blair, Roger. (2011). *Sports Economics*. Cambridge University Press.

Bradbury, J.C. (2008). *The Baseball Economist: The Real Game Exposed*. Plume.

Euchner, Charles C. (1993). *Playing the Field: Why Sports Teams Move and Cities Fight to Keep Them*. Johns Hopkins University Press.

Fort, Rodney. (2010). *Sports Economics (3rd ed)*. Prentice Hall.

Helyar, John. (1994). *Lords of the Realm: The Real History of Baseball*. Ballantine Books.

- Johnson, A., and Frey, J. (1985). *Government and Sport: The Public Policy Issues*. Rowman and Allanheld.
- Johnon, Arthur. (1993). *Minor League Baseball and Local Economic Development*. University of Illinois Press.
- Lowenfish, Lee. (1991). *The Imperfect Diamond: A History of Baseball's Labor Wars*. Da Capo Press.
- Miller, James. (1990). *The Baseball Business: Pursuing Pennants and Profits in Baltimore*. University of North Carolina Press.
- Miller, Marvin. (1991). *A Whole Different Ballgame: The Inside Story of Baseball's New Deal*. Fireside Books.
- Panek, Richard. (1995). *Waterloo Diamonds: A Midwestern Town and Its Minor League Team*. St. Martin's Press.
- Quirk, James, and Fort, Rodney. (1992). *The Business of Professional Team Sports*. Princeton University Press.
- Scully, Gerald. (1989). *The Business of Major League Baseball*. University of Chicago Press.
- _____. (1995). *The Market Structure of Sports*. University of Chicago Press.
- Sommers, Paul. Ed. (1992). *Diamonds Are Forever: The Business of Baseball*. The Brookings Institute.
- Staudohar, Paul, and Mangan, James, Eds. (1991). *The Business of Professional Sports*. University of Illinois Press.
- Szymanski, S., and Zimablist, A. (2006). *National Pastime: How Americans Play Baseball and the Rest of the World Plays Soccer*. Brookings Institute.
- Uberstine, Gary, A. Ed. (1988). *Law of Professional and Amateur Sports*. Clark Boardman Co.
- Zimablist, Andrew. (1992). *Baseball and Billions: A Probing Look Inside the Big Business of Our National Pastime*. Basic Books

ECON 239: Economics of Sports - Syllabus of Record

I. Catalog Description

ECON 239

**(3h-0l-3cr)
3 lecture hours
0 lab hours
3 credit hours**

Prerequisites: none

Introduces and develops the economic way of thinking as it applies to the sports industry. Topics covered include: the organizational structure of the major American sports leagues (e.g., revenue sharing, salary restrictions, and competitive balance), labor issues in sports (e.g., free agency, reserve clause, unions, strikes, and discrimination), the legal relationship between sports and governments (e.g., antitrust law), and the issue of sports and public finance (e.g., location and financing of sports franchises and public ownership of stadiums and arenas).

II. Course Objectives

Upon completion of this course, students will be able to...

- 1. Demonstrate knowledge of fundamental economic concepts, particularly in how these concepts relate to the sports industry.**
- 2. Analyze differences in organizational structure across the major American sports leagues, such as the generation and distribution of revenues, restrictions on player salaries, and the promotion of competitive balance.**
- 3. Discuss the interplay between sports leagues and antitrust policy and the seminal court cases that have led to full and/or partial exemptions to federal antitrust laws for certain leagues.**
- 4. Compare and contrast the various funding mechanisms state and local municipalities have used to attract and/or keep a sports franchise as well as critically analyze the economic benefits of a sports franchise to a city.**
- 5. Demonstrate an understanding of the labor market in professional sports, particularly the determination of player salaries and key disputes between player unions and league management.**

III. Course Outline

<i>Chapter/Topic</i>	<i>Class Hours (running total)</i>	<i>Course Objective</i>
Chapter 1: Economics and Sports	3 (3)	Objective #1
Chapter 2: Review of the Economists Arsenal	4.5 (7.5)	Objective #1
(Outside Material) Applications of the Demand for Tickets: Price Elasticity of Demand and Gate Revenue and Variable Ticket Pricing	1.5 (9)	Objective #1
Chapter 3: Sports Franchises as Profit-Maximizing Firms	3 (12)	Objective #2
(Outside Material) League-by-League Revenue, Valuation, and Profit Analysis	1.5 (13.5)	Objective #2
Exam #1	1.5 (15)	Objectives #1 and #2
Chapter 4: Monopoly and Antitrust	3 (18)	Objective #3
(Outside Material) History of Antitrust Legislation in Professional Sports	3 (21)	Objective #3
Chapter 5: Competitive Balance	3 (24)	Objective #2
Chapter 6: The Public Finance of Sports: The Market for Teams	4.5 (28.5)	Objective #4
Exam #2	1.5 (30)	Objectives #2, #3, and #4
Chapter 7: The Costs and Benefits of a Franchise to a City	3 (33)	Objective #4
(Outside Material) Arguments For and Against Using Public Funding to Attract and/or Keep a Sports Team	1.5 (34.5)	Objective #4
(Outside Material) The NFL Salary Cap and Key Disputes Between NFL Players and NFL Owners	1.5 (36)	Objectives #2 and #5
Chapter 8: An Introduction to Labor Markets in Professional Sports	3 (39)	Objective #5
Chapter 9: Labor Market Imperfections	3 (42)	Objective #5
Final Exam	During Finals Week	Objectives #2, #4, and #5

IV. Evaluation Methods

There will be three in-class exams (including the final exam) that include multiple choice and short answer questions, as well as ten other assignments, which will be a combination of in-class quizzes and take-home assignments.

Exam #1: 25%

Exam #2: 25%

Final Exam: 25%

Quizzes and Take-Home assignments: 25%

Total: 100%

V. Sample Grading Scale

A: 90% - 100%

B: 80% - 89%

C: 70% - 79%

D: 60% - 69%

F: Below 60%

VI. Attendance Policy

The attendance policy for this course is consistent with the *Undergraduate Attendance Policy* outlined in IUP's Undergraduate Catalog.

VII. Required Textbook

Leeds, M. & Von Allmen, P. (2011). *The Economics of Sports* (4th ed.). Pearson Addison-Wesley.

VIII. Bibliography

Blair, Roger. (2011). *Sports Economics*. Cambridge University Press.

Bradbury, J.C. (2008). *The Baseball Economist: The Real Game Exposed*. Plume.

Euchner, Charles C. (1993). *Playing the Field: Why Sports Teams Move and Cities Fight to Keep Them*. Johns Hopkins University Press.

Fort, Rodney. (2010). *Sports Economics* (3rd ed). Prentice Hall.

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Johnon, Arthur. (1993). *Minor League Baseball and Local Economic Development*. University of Illinois Press.

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_____. (1995). *The Market Structure of Sports*. University of Chicago Press.

Sommers, Paul. Ed. (1992). *Diamonds Are Forever: The Business of Baseball*. The Brookings Institute.

Staudohar, Paul, and Mangan, James, Eds. (1991). *The Business of Professional Sports*. University of Illinois Press.

Szymanski, S., and Zimablist, A. (2006). *National Pastime: How Americans Play Baseball and the Rest of the World Plays Soccer*. Brookings Institute.

Uberstine, Gary, A. Ed. (1988). *Law of Professional and Amateur Sports*. Clark Boardman Co.

Zimablist, Andrew. (1992). *Baseball and Billions: A Probing Look Inside the Big Business of Our National Pastime*. Basic Books.

Sample Module:

This aim of this module is to meet Course Objective #4: *“Students will be able to compare and contrast the various funding mechanisms state and local municipalities have used to attract and/or keep a sports franchise as well as critically analyze the economic benefits of a sports franchise to a city.”*

Included:

1. Power Point Slides to accompany chapters 6 and 7 from the text.
2. Objective quiz on chapters 6 and 7 (I combined them into one quiz here for convenience). This quiz will be uploaded to the LMS.
3. Outside reading and associated short paper assignment, utilizing blog postings and news articles.
4. Discussion board question and assignment.

Chapter 6

The Public Finance of Sports: The Market for Teams

How The Dodgers Changed Baseball

- The Dodgers were not the first team to move
 - They left Brooklyn after 1957 season
 - Braves, Browns, & A's moved earlier
 - The Braves' move ended MLB's "Golden Age"
 - Refers to 1903-53: a period of absolute stability
 - No teams entered, left or moved
- The Dodgers were different
 - Most profitable team in MLB in 1950s
 - Alone accounted for 47% of NL's profits
 - They were a "cultural totem" for Brooklynites and all Americans

Key Lesson of Dodgers' Move

- No city is safe from losing its franchise
- After the Dodgers moved, cities begin to finance facilities
 - Before 1950 - only 1 stadium was publicly funded
 - That stadium (Cleveland Municipal) was first built for an Olympic bid
 - Braves built County Stadium to lure the Braves
 - By 1980 - almost all were heavily subsidized

Bidding for Teams

- Cities do not literally bid for teams
 - 4 major leagues forbid municipal ownership
 - Instead, they bid for the right to host the team
- Cities do not generally offer cash
 - They typically offer payment in kind
 - Common subsidies are funding for stadiums, practice facilities, or land

What Do Cities Pay?

- Since 2006, some cities have paid 100%
 - Since 2006
 - Charlotte (NBA), Phoenix (NFL), and Washington, DC (MLB)
- Others have paid much less
 - New York reports paying 27% of Citi Field
 - 17% of Yankee Stadium II
- Reported share could be understated
 - Some figures are underreported
 - Some costs are not obvious
 - Infrastructure, police services, opportunity costs

Do New Facilities Draw More Fans?

- New facilities could attract people to the city
- The "honeymoon effect" lasts ~10 years
 - NBA and NHL have slightly shorter effects
 - Afterwards, attendance returns to old levels

The Sources of Teams' Market Power

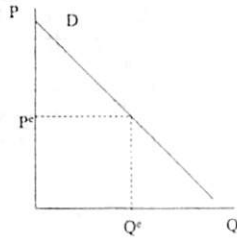
- Monopoly Power
- All-or-Nothing Demand Curve
- Winner's Curse

Key to Monopoly: Limit Output

- Leagues long preferred moves to expansion
 - MLB did not expand during "Golden Age"
 - NFL also absorbed 5 teams from rival leagues
 - Browns, Colts, 49ers, and Cardinals remain
- MLB's first expansion (1961-62) had two goals
 - Prevent new league (NY, Houston key cities)
 - Appease Congress (angered by move of Senators)
- NFL's expansion was tied to AFL
 - First expanded (1960) to try to kill the AFL
 - Next expanded (1966) to merge with it
 - Needed support of Congressmen from Louisiana
 - The New Orleans Saints were born as a result

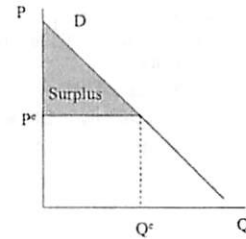
All-or-Nothing Demand

- Appears in many contexts
 - Can't buy half a foot-long hot dog
 - Charlotte cannot get .8 of the NASCAR Hall of Fame
- In a competitive market
 - At P^e consumers buy Q^e
 - Monopolist constrained by demand



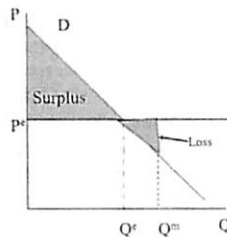
All-or-Nothing Demand

- In a competitive market
 - At P^e consumers buy Q^e
 - Monopolist constrained by demand
 - Consumers get surplus



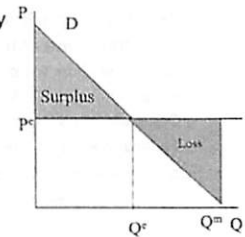
Firms Can Extract Surplus

- Must choose Q^m or nothing
 - Cannot buy Q^e
 - Too much beats none at all
- Consumers lose pink area
 - Firm forces them off the demand curve
 - Loss is from buying too much
 - But loss is less than surplus



How Far Can The Firm Go?

- Consumer continues to buy Q^m as long as surplus > loss
 - Buying Q^m beats nothing
- The maximum Q^m sets loss equal to surplus
 - Area of pink triangle = Area of blue triangle



Winner's Curse

- Causes buyer to pay more than product is worth
- Occurs in auctions with an uncertain payoff
 - First noted in auctions for oil leases
 - Winners overbid for leases
 - Now see in bids to host teams or major events (e.g., Olympics)
- In an auction the winner is willing & able to bid the most
- Winner expects greatest payoff because he is
 - The bidder best suited to exploit the opportunity
 - The most (over-)optimistic bidder
 - Intent on winning for the sake of winning

The Origins of Olympic Overspending

- Montreal went deeply in debt over 1976 Games
 - Spent about \$3.0 Billion (2009 dollars)
 - It took 30 years to pay off the debt
- As a result, LA was the only bidder for the 1984 Olympics
 - It used existing facilities
 - It was the first Olympics to sell official sponsorships
 - The LA Organizing Committee showed a small profit

The Implications of the LA Games

- Cities saw Games as a profit center
- Bidding exploded
- The IOC used this leverage when auctioning off host sites
- Athens spent about \$12 Billion on 2004 Games
- China spent over \$40 Billion on 2008 Games
 - Though China had political as well as financial motives

Names of Stadiums Reveal Funding Sources

Era #1	Era #2	Era #3
Crosley Park	Cleveland Municipal Stadium	Network Associates Field
Wrigley Field	Atlanta-Fulton County Stadium	Continental Airlines Arena
Shibe Park	Milwaukee County Stadium	Lincoln Financial Field
Crosley Field	Three Rivers Stadium	Minute Maid Field
Ebbets Field	Veterans Stadium	US Cellular Field

Era #1: 1900 - 1923

- All have "Park" or "Field" in name
 - Reflects pastoral origin of baseball
- All bear the name of team owner
 - Built the stadium to house his team
 - Exception - sort of - Wrigley Field
 - Originally "Weeghman" Field (Built by Federal League)
 - Team and stadium later bought by Wrigley
- Football teams rented space in existing facilities
- All are old and most no longer exist

Era #2: 1960-1991

- 4 of 5 built after 1950
 - Lone exception: Cleveland Municipal Stadium
 - Recall - It was built to attract the Olympics to Cleveland
 - 3 of 5 built after 1980
- Names reflect change of funding source
 - Municipally built and leased to teams
 - Named for city, geographic trait, or patriotic theme
- Most of these have also disappeared

Era #3: 1992 - Present

- "Naming rights" sold by teams to firms
- Most still have extensive public funding

Stadium Size Has Also Changed

- The optimal size a for baseball stadium: 30-40,000
- Era #2 ballparks were too big for MLB
 - Teams in these facilities rarely had sellout crowds
 - They were built with multiple purposes in mind
- Most were built to house football as well
 - Football games draw more fans

Shape Has Also Changed

- Era #1 ballparks had unique shapes
 - They were built to fit in an urban street grid
- Era #2 ballparks were circular "cookie cutters"
 - They were designed to house baseball and football
 - Optimal shapes differ
 - Baseball fans want to sit in a horseshoe between the base lines
 - Football fans want to sit along the sidelines
 - No one was happy with a circular shape
- Era #3 ballparks are now single-use facilities
 - Return to unique shapes is an aesthetic choice

The Urban Ballpark

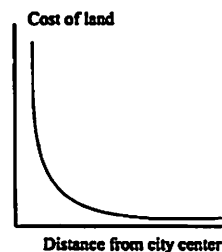
- Nostalgic fans have called for new facilities to be built downtown like Era #1 parks
 - Era #2 facilities were often built on the city's edge
 - Sometimes they were not even in the "home" city
 - Irving Cowboys would play the East Rutherford Giants
- Nostalgia is not what it used to be
 - The old ballparks were not built downtown
 - Yankee Stadium was built in "Goatville"
 - Fans complained about the distance to Shibe Park
 - Cities grew up around the old ballparks

Cars and Costs

- Fans move to suburbs created a new need
 - Where to park the cars?
 - Connie Mack Stadium had only 200 spots
- The result in Era #2 was "a sea of asphalt"
- Stadium is "space intensive"
 - Creates problems for a downtown location
 - Space costs money

The Cost of Space: The Rent Gradient

- Cost of land falls as move away from center of town
- It is cheaper to build a stadium on the outskirts



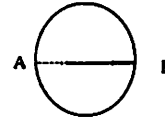
Reason for Rent Gradient

- Assume a "linear city"
 - Residents are spread evenly along Main Street
 - A & B are competing stores
 - Identical except for location
 - Considering where to locate
- If the stores start at ends of city
 - A moves slightly toward center
 - Draws customers away from B
 - B responds by moving closer to center
- Result: both stores are at the center of town



A More Realistic Model

- Consider a (more realistic) circular city
 - Residents are evenly spread over circle
 - Identical stores locate on the diameter
- A & B move to the center of the circle
- That is why central business districts are *central*
- The competition for space causes land prices to be higher at the center



Chapter 7

The Costs and Benefits of a Franchise to a City

Stadium Costs and Revenues

- Revenues for municipally-owned facilities seldom cover costs
 - Typical revenues
 - Rental Payments from teams
 - Share of Concessions, Parking, Luxury Boxes, etc.
 - Precise arrangements vary by facility
 - Typical costs
 - Standard operating costs (labor, utilities, etc)
 - Depreciation (facility will eventually be worthless)
 - Opportunity Cost: Could have invested \$\$ elsewhere
 - Foregone tax revenue – city can't pay itself

When Teams Pay for Stadiums

- They have an incentive to economize
 - In 1971, Schaefer Stadium cost the owners of the New England Patriots \$6.7 million
 - The next year, publicly built Arrowhead Stadium cost Kansas City \$43 million
- Going over budget has consequences
 - Ebbets Field cost Charles Ebbets \$750,000 in 1913
 - This forced him to sell ½ the team

When Cities Pay for Stadiums

- Suppose a city issues 30-year bonds at 3.5% interest to pay for a \$500M stadium
 - It must make \$27.2M/year to break even
 - More generally $P = V / [(1+r)^t - 1] / r$
 - P = Required annual payment
 - V = Value of stadium
 - r = Interest rate
 - t = Term of loan
- Most cities do not come close to break-even
 - Cities look beyond profit and loss
 - Markets often fail – that is why government exists

Teams Bring Cities Direct Benefits

- Brings people to town from elsewhere
 - They spend money in town rather than they would not have
 - "Exports" to other municipalities rise
- Local residents to spend more
 - Increase overall spending
 - Spend locally rather than elsewhere
 - "Imports" from other cities fall
- Net exports (exports minus imports) rise

The Direct Impact Is Often Overstated

- Must count only *new* spending
 - Much spending on teams is just reallocated
 - It would have been spent on another local activity
- Teams are often conduits – not a magnets
 - Revenue comes in – but also goes out
 - Team pays salaries to players who live elsewhere
 - Items sold at concessions are typically made elsewhere

The Direct Benefits are Small

- MLB generates less revenue than Fruit of the Loom
- 3 cities have all 4 major sports within city limits
 - Chicago, Denver, and Philadelphia
 - Chicago has 5 teams inside the city
 - The 4 sports combined account for less than 1/2 of 1% of total personal income in each city

Indirect Effects and The Multiplier

- Franchises have a bigger impact
 - Direct effects are like throwing a pebble in a lake
 - The pebble generates ripples across the lake
 - The impact of a team spreads through the economy
- More spending generates additional income
- Higher incomes cause more spending
- The direct impact has an amplified – multiplied – effect on incomes in the city

The Ripple Effect and the Multiplier

- Ripples in a lake slowly fade away
- The same is true for spending
 - The impact on income and expenditure gradually fades to zero
 - How to measure the size of the ripples?
- The key is the Marginal Propensity to Consume (MPC)
 - The MPC shows how much of the added income a consumer spends ($\Delta C/\Delta Y$)
 - Bigger MPC → bigger ripples → bigger multiplier

The Arithmetic of the Multiplier

- Let X = initial expenditure
 Y = total change in income
- Then
 - $\Delta Y = \$X + \$X \cdot MPC + (\$X \cdot MPC) \cdot MPC + \dots$
 - $\Delta Y = \$X \cdot (1 + MPC + MPC^2 + MPC^3 + \dots)$
 - We know that $MPC < 1$
 - Therefore $MPC > MPC^2 > MPC^3$ etc.
- The sum $(1 + MPC + MPC^2 + MPC^3 + \dots)$ is the multiplier
 - The sum equals $1/(1 - MPC)$
 - If the $MPC = 0.9$ then the multiplier = 10
- A \$43M direct impact has a total impact of \$430M

The Multiplier for a Sports Franchise

- Much of a franchise's income goes to players
 - Players have more reason to save than others
 - The wealthy save more/spend less of each added dollar of income
 - Athletes' high incomes last only a few years – more reason to save
 - Athletes' low MPC reduces ripples & multiplier
- Much income leaks out of the local area
 - Few players & executives live in town
 - Leakages are especially severe in smaller cities
 - People spend their higher incomes elsewhere
- Local multipliers are much closer to 1 than 10

Not All Cities Are Alike

- Multipliers are greater for larger cities
 - More income is spent locally
- Canadian cities have particular disadvantages
 - Taxes are higher and local subsidies are lower
 - Exchange rates have often been unfavorable

Exchange Rates And Sports Franchises

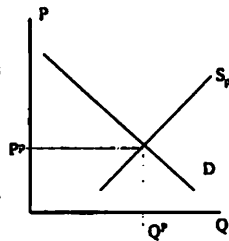
- For simplicity, assume that a Canadian NHL franchise
 - Receives income in Canadian dollars
 - Pays salaries in U.S. dollars
- To pay players it must exchange C\$ for US\$
 - In March 2008, C\$1 roughly equaled US\$1
 - In March 2009, C\$1 roughly equaled US\$0.80
- When the C\$ weakens v. US\$,
 - Players become more expensive
 - Canadian teams become less competitive

Externalities and Sports Franchises

- Externalities are the impact of an action on a third party
 - Firm does not take third party into account
 - It might not even know there was an impact
- Externalities can be negative
 - What you do hurts me
 - You don't compensate me for my pain
 - Facilities can bring crime, noise, and congestion
- Externalities can be positive
 - What you do helps me
 - I don't compensate you for providing this benefit
 - Facilities add to city's income, employment, & tax revenue

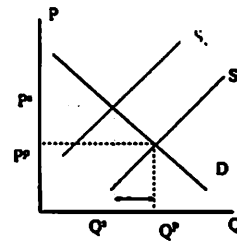
The Impact of A Negative Externality

- Firms' have a *private* supply curve S_p
 - Based on the cost of inputs
- Intersection with Demand yields market outcome: P^P and Q^P
- But S_p might understate costs
 - Some costs are borne by 3rd parties
 - Firm does not compensate them
 - It might not even know these costs exist



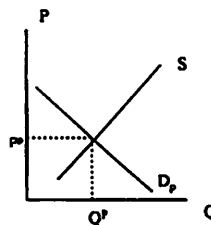
The Impact of A Negative Externality

- Pollution is a social cost
 - Imposed on third party
 - Not part of supply decision
- Supply curve actually S_s
 - Includes private & social costs
- Socially optimal outcome is P^S, Q^S
- The market "fails"
 - Quantity is too high ($Q^P > Q^S$)
 - Price is too low ($P^P < P^S$)
 - Producers and consumers benefit at the expense of others
 - Government can impose taxes to reduce quantity to Q^S



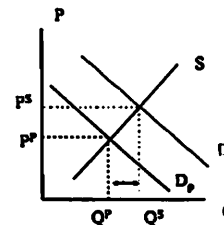
Impact of Positive Externality

- As before, producers weigh private costs and benefits
 - Private benefits are to consumers of output
 - Sets demand at D_p
- Market outcome is P^P, Q^P



The Impact of a Positive Externality

- Social benefits might exceed private benefits
- Demand curve is actually D^S
 - Quantity is too low ($Q^P < Q^S$)
 - Price is too low ($P^P < P^S$)
- Market fails
- What can government do?
 - Provide tax breaks
 - Subsidize production
 - This is the justification for stadium subsidies



Public Goods And Teams

- Teams serve as “civic totems”
 - Provide a sense of identity to residents
 - “And now, YOUR Boston Celtics ...”
- Olympics have propaganda value
 - Cities and nations can demonstrate their power, prosperity and peaceful intent
 - Berlin, 1936
 - Moscow, 1980
 - Beijing, 2008

Is There Any Way to Ensure A Franchise Pays?

- Cities should have a broad plan
 - Team and facility are part of bigger picture
 - Even then, the impact seems small
- Are mega-events more beneficial?
 - Is it better to host the Super Bowl than a team?
 - Evidence is mixed at best

The Impact of Mega-events

- One-time event like Super Bowl
 - Not ongoing, like a franchise
 - Likely to draw tourists
- Again must ask if brings in new money
 - Often held in tourist areas (e.g., Miami or San Diego)
 - Do they just displace tourists who would have come anyway?
- Porter’s (1999) study of Super Bowl
 - Looked at spending in counties with Super Bowls
 - Compares with counties that did not host Super Bowls
 - Finds little or no impact

A Public Choice Perspective

- Idea helped earn James Buchanan a Nobel Prize
- Politicians act “economically”
 - They pursue their own self-interest
 - This means they act to maximize their political fortunes
- Helps to explain public funding of stadiums
 - Why it happens even if it is economically inefficient
 - Why it might be economically efficient

The Power of Interest Groups

- Interest groups have
 - Well-defined goals
 - Access to political power
- This gives them an advantage
 - They can identify beneficial policies
 - They can organize to lobby for those policies
- The impact on the majority of people is harder to identify
- Example: construction unions and stadiums

Why Majority Rule Might Not Be Good for the Economy

- Majority rule might not maximize social welfare
- Consider Pennsylvania’s dilemma in 2000
 - Philadelphia and Pittsburgh wanted stadiums
 - Assume a stadium brings large local benefits and slightly higher taxes throughout the state
- Majority rule says each stadium gets only 1/3 of the votes
 - Western and central legislators oppose Philadelphia
 - Eastern and central legislators oppose Pittsburgh
 - Even if overall benefits outweigh the overall costs

The Benefits of Logrolling

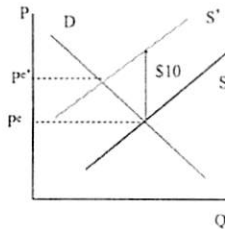
- By trading votes – “logrolling” – voters can express how strongly they feel
- Legislators from East and West agree to vote for the other’s stadium
- Both stadiums are built even though 2/3 actually oppose each project

How To Pay for Facilities?

- Localities can borrow money
 - But this only delays taxation
 - Eventually they have to pay off the loan
- Cities can raise a variety of different taxes
- They frequently use *sales taxes*
 - Tax on the sale of an item
 - Ramsey rule for efficient sales taxes
 - Efficient tax minimizes deadweight loss
 - Tax should be inversely related to the elasticity of demand

How Sales Taxes Work

- Sales tax creates 2 supply curves
 - Consumer sees S'
 - Hotel room that had cost P^e now costs $P^e + \$10$
 - Producer sees S
 - Does not receive the extra payment
- $P^e < P^e + \$10$
 - Excess demand at $P^e + \$10$
 - Price rises by less than \$10

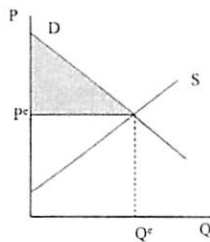


Who Pays the Tax?

- Consumers pay some of the tax
 - $P^e > P^e$
- Hotels pay some of the tax
 - $P^e < P^e + \$10$
- Trying to export the tax burden to out-of-town hotel guests will not work

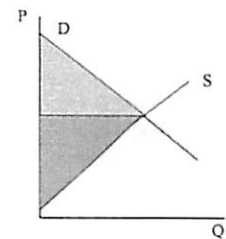
The Burden of a Sales Tax

- The cost of a sales tax is not the dollars paid
- It is the deadweight loss
- To see this, assume that, before the tax
 - The market is at (Q^e, P^e)
 - Consumer Surplus is shaded orange



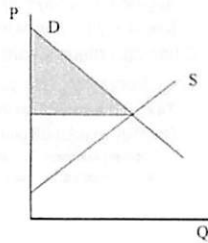
The Burden of a Sales Tax

- Before tax
 - Market at (Q^e, P^e)
 - Consumer Surplus is shaded orange
 - Producer Surplus is shaded red
- Gain to society is the sum of the two



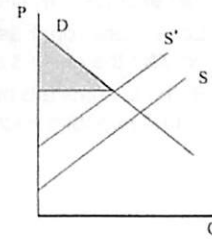
The Burden of a Sales Tax

- Sales taxes shift the supply curve



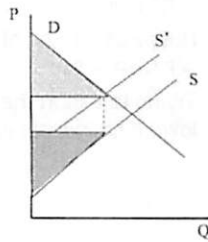
The Burden of a Sales Tax

- Sales taxes shift the supply curve
 - Price rises
 - Quantity falls
- Consumer surplus falls



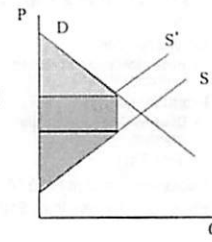
The Burden of a Sales Tax

- Sales taxes shift the supply curve
 - Price rises
 - Quantity falls
- Consumer surplus falls
- Producer surplus falls



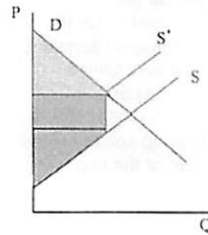
The Burden of a Sales Tax

- Part of loss is a transfer
- Green rectangle is tax revenue
 - Area = Tax * Quantity sold
 - Lost by consumers
 - Lost by producers
 - But gained by others in society
 - Not a net loss overall



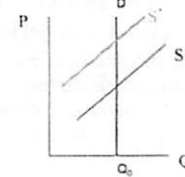
The Burden of a Sales Tax

- Part of loss disappears
 - Consumers buy less
 - Producers sell less
- White triangle is a deadweight loss
 - Lost by producers
 - Lost by consumers
 - Not gained by anyone
 - A net loss to society



Minimizing the Deadweight Loss

- Ramsey rule says to tax inelastically demanded goods
- The demand for dialysis is very inelastic
 - Assume it is zero
 - D is a vertical line
- Deadweight loss is 0
 - Consumers still buy Q_0
 - Producers still sell Q_0
- Should we tax dialysis?



Tax Fairness

- Taxing dialysis seems unfair
- How do we judge fairness
- We have 2 fairness criteria for taxes
 - Horizontal equity: treat equals equally
 - People benefitting the most from public project should pay the most in taxes
 - Vertical equity: taxes should reflect the ability to pay
 - The poor should not bear the tax burden of a project

Incremental Financing

- Doesn't impose new taxes
- Earmarks added tax revenue from a project
 - San Diego expects hotel stays to rise because of PETCO Park
 - Hotel tax revenue will rise as well
 - The added tax revenue will pay for the ballpark
- It assumes a sustained rise in hotel revenue that does not seem to be happening

Milwaukee Gains by Thinking Big

- Funded Miller Park with 5-county sales tax
- Problems with sales taxes
 - They don't stay put
 - They are often vertically & horizontally inequitable
 - The poor pay higher a % of their income than the rich
 - Those who pay the tax might not attend games
- The wider tax reduces the inequities
 - Wealthy suburbanites help pay the burden
 - Wealthy suburbanites are the largest beneficiaries

Seattle Gains by Thinking Small

- Put sales tax on restaurants & bars in King County
 - Tax paid by businesses that benefit from the stadium
 - A bit too broad
 - Hits French restaurant across county as well as sports bars
- Put sales tax on tickets to stadium
 - Gets at direct beneficiaries
 - Would be even better if taxed luxury boxes more
- Put sales tax on rental cars
 - Tried to export burden but has problems outlined above

The Benefits of Debt

- Borrowing does not let cities escape taxation
 - They must eventually pay back debt by raising taxes
- But tax laws give cities an advantage
 - Municipal bonds are tax deductible
 - Lower tax burden means cities can offer less interest
 - Reduces tax burden on city residents
 - Increases tax burden on taxpayers in other states
- Borrowing also "exports" the tax burden to later generations
 - This is okay if later generations also benefit
 - They do not benefit if they pay for an empty stadium
 - Pittsburgh residents were paying for Three Rivers Stadium after it was demolished

Quiz on Chapters 6 and 7

To be performed after reading the chapters in the text and reviewing the power point slides

Choose the Best Answer

1. A positive externality causes the market to produce...
 - A) more than the socially optimal quantity of the good or service.
 - B) less than the socially optimal quantity of the good or service.
 - C) the socially optimal quantity of the good or service.
 - D) a different good or service than the one that should be produced.

2. If people in a community spend 25% of each additional dollar of income that they earn and if a sports franchise causes incomes to increase initially by \$5 million, then eventually total income in the community will increase by...
 - A) \$1.25 million
 - B) \$ 5 million
 - C) \$6.67 million
 - D) \$20 million

3. If the marginal propensity to consume is .75, then the marginal propensity to save is...
 - A) 1.75
 - B) .25
 - C) .75
 - D) .10

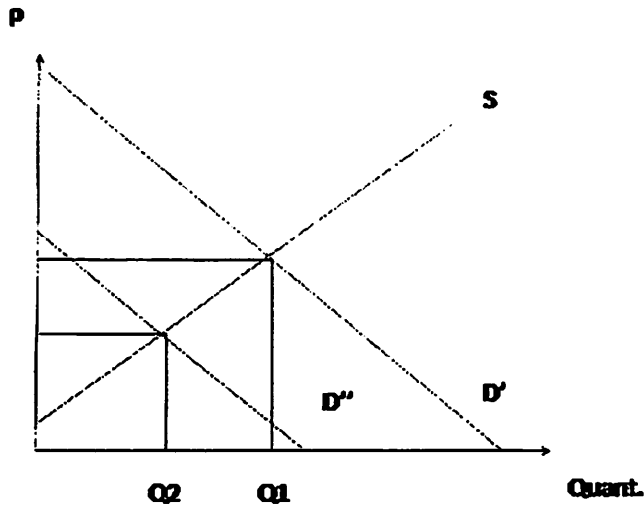
4. In reality, as far as the impact of a sports franchise is concerned, the MPC is probably less than the example of .9 that we used in class because...
 - A) those who are paid by a sports franchise typically do not live in the city year round.
 - B) those who are paid by a sports franchise may have a very large income and tend to save a larger fraction of each additional dollar than others may.
 - C) sports franchise do not cause people to spend any more of an additional dollar.
 - D) both a and b are correct.

5. When discussing a tax on a particular good or service, such as the tax on cruises imposed by Miami, we learned that...
- A) only the side of the market that is taxed bears any burden.
 - B) the burden of the tax is usually quite insignificant
 - C) typically, both buyers and sellers share the burden of the tax.
 - D) sellers are always made worse off than buyers.
6. It is possible that a city, when taxing a good or service to raise money for a stadium, may not raise the expected amount of funds because...
- A) officials may ignore the fact that a tax increases supply and/or demand.
 - B) officials may ignore that the tax "shrinks" the market by causing supply and/or demand to decrease.
 - C) public officials are notoriously bad at math.
 - D) public officials often underestimate how much a new stadium will cost.
7. The Winner's Curse suggests that
- A) teams that do well one season will do less well the next season.
 - B) teams that win will be a burden to the city that hosts them
 - C) cities often lose teams with winning records.
 - D) cities that attract a franchise typically pay too much.
8. New baseball stadiums are smaller than they used to be because
- A) baseball is less popular than it used to be.
 - B) baseball teams no longer share ballparks with football teams.
 - C) cities are becoming more careful about spending their money.
 - D) technological advances allow teams to seat more fans in a smaller space.
9. The most notorious team relocation and the act that brought the movement of sports franchises into the public eye was?
- A) The move of the Dodgers from Brooklyn to L.A.
 - B) The move of the Senators from Washington to Minnesota.
 - C) The move of the Brave's from Boston to Milwaukee.
 - D) The move of the Giants to San Francisco.

10. A rationale for using public funding to build a stadium to attract a sports franchise is
- A) the positive externalities of having a sports franchise in the city outweigh the negative externalities
 - B) the negative externalities of having a sports franchise in the city outweigh the positive externalities
 - C) the public is unable to make rational decisions by themselves; they need the government to help them spend their money
 - D) the marketplace typically does not do what is best for society
11. Prior to the 1950's
- A) baseball stadiums were financed completely with public funds
 - B) baseball teams rented stadiums from football teams during football's off-season
 - C) baseball stadiums were built primarily with private funding
 - D) stadiums were named after the cities that had them built
12. A tax is vertically equitable if
- A) it is "regressive"
 - B) those with a higher ability to pay actually pay less than those with a low ability to pay
 - C) it meets the "benefits" principle
 - D) those with a greater ability to pay do indeed pay more dollars than those with a lower ability to pay
13. Cities that seem to do well in the "sports franchise" game are
- A) small cities
 - B) big cities
 - C) small cities surrounded by big cities
 - D) big cities surrounded by small cities
14. In 1953, the first team to relocate in roughly fifty years was
- A) The Braves
 - B) The Dodgers
 - C) The Giants
 - D) The Phillies

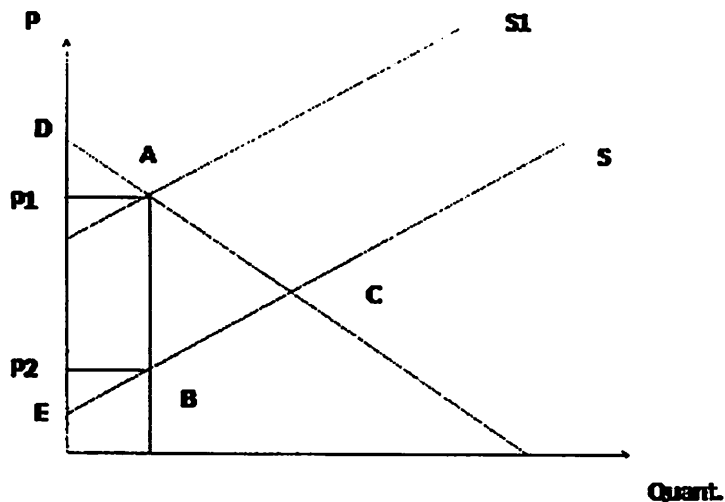
15. Lotteries tend to be
- A) an efficient way to raise money
 - B) vertically equitable
 - C) progressive
 - D) not vertically equitable

Use the following to answer questions 16-17:



16. Suppose that the above figure illustrates the case of a negative externality in consumption (i.e., traffic, increased crime, etc.). The "social value" curve is illustrated by _____ and the optimal quantity of the good or service is denoted by _____.
- A) D' , Q_1
 - B) D'' , Q_1
 - C) D' , Q_2
 - D) D'' , Q_2
 - E) S , Q_2
17. Suppose that the above figure illustrates a positive externality in consumption. The "social value" curve is illustrated by _____ and the optimal quantity of the good or service is denoted by _____.
- A) D' , Q_1
 - B) D'' , Q_1
 - C) D'' , Q_2
 - D) S , Q_2

Use the following to answer questions 18-20:



18. The above figure illustrates the impact of a per-unit tax on a good or service. The price that buyers pay is _____ and the price that sellers receive is _____.

- A) P2; P1
- B) P1; P2
- C) D; E
- D) E; D

19. The above figure illustrates the impact of a per-unit tax on a good or service. The tax revenue collected is _____.

- A) Area A,B,C
- B) Area D,P1,A
- C) Area P2,B,E
- D) Area P1,P2,A,B

20. The above figure illustrates the impact of a per-unit tax on a good or service. The deadweight loss of the tax is _____.

- A) Area A,B,C
- B) Area D,A,P1
- C) Area P2,B,E
- D) Area P1,P2,A,B

The following seven pages contain two blog posts from TheSportsEconomist.com and a website posted on Minnesota Today about the debate held last year in Minnesota regarding using public funding to build a new stadium to keep the Minnesota Vikings from relocating. Read the blog posts/web site and the links contained within and then write a 2-3 page paper explaining and defending your opinion on whether or not taxpayer money should be used to attract or keep a sports team.

The Sports Economist

__economic thinking about sports__

Just give him the keys to the treasury

FEBRUARY 11

by Dennis Coates

According to a report online at [Forbes](#) (and citing a report from the Minneapolis Star Tribune), Minnesota Vikings owner Zygi Wilf has rejected three different offers from the citizens of Minnesota regarding a stadium for his team. The rationale for rejecting the latest offer is that it is not as viable as the earlier proposals. Apparently rather than sweetening the deal, Minnesotans decided to take a step toward rationality in their third offer.

The latest proposal replaced an intention to fund the plan via sales taxes with user fees at the stadium. In discussions of paying for public services, the benefit principle of taxation has a prominent place; the people who benefit from a service are the people who pay for it. Indeed, user fees for stadium usage are a step toward having individual consumers pay for the services they get from the stadium. This includes the fans of visiting teams who go to Minnesota to see their team play, so some part of paying for the stadium is exported to football fans from around the country. What could be better to a Minnesotan than having Packer, Bear, and Lions fans helping to pay for the home for the Vikes? By contrast, if you don't derive benefits from the stadium, you don't attend events there and you don't pay for the facility.

Use of the sales tax, on the other hand, makes all citizens pay for the stadium, even those who never attend games in it. This, of course, includes people who never watch games played there on television or listen to them on the radio, and even those who dislike football. In other words, funding the stadium with sales taxes is redistributive, taking money from non-users to provide benefits to users, and, if one believes that beneficiaries of a good should be the ones to pay for it, unfair.

Of course, under the sales tax approach, the ability of the Vikings to generate revenues from the stadium is greater than it is under the user fee. Suppose the typical fan is willing to pay \$100 to attend a game, if the stadium is paid for by the general sales tax increase, little of the \$100 willingness to pay is siphoned off for stadium financing because ticket purchases are a tiny fraction of all sales. On the other hand, if the user fee is imposed, it falls entirely on ticket purchases, taking a much larger share of the \$100 willingness to pay than would happen under the general sales tax. In short, the user fee is not viable to the Vikings because it leaves less of the fans' willingness to pay for them than does the broad-based sales tax increase.

It will be interesting to see if Minnesota circles back to one of its earlier proposals. Alternatively, the state could just offer Mr. Wilf the keys to the state treasury to get him to stop his flirtations with Los Angeles and commit to staying in Minnesota.

The Sports Economist

__economic thinking about sports__

If You Oppose Stadium Subsidies, then You Might Be a Deadbeat

DECEMBER 2

by Phil Miller

Have you ever wondered about the demographics of people who oppose stadium subsidies? Me neither, but here's something from Savethevikings.org, a stadium proponent website.

As with any public hearing we do expect to hear from opposition on a Vikings stadium and given the time slot, the advantage goes to opponents. We typically see those who are unemployed or on a fixed income advocating against a new stadium because the government isn't giving them enough. All while the majority of the Vikings 2.5 million fans are working.

Well, at least the author didn't refer to us pencil-necked, pointy-headed professors – employed professors – who are, at best, skeptical about the value of using taxpayer money to fund a private business. But when you have no case and your back's against the wall, you whip out the ad-hominem attacks in desperation.

Related: King Banaian, a St. Cloud State (Mn) university economist, a Minnesota state legislator, and former blogger here at TSE tells why the economic impact of the Vikings is typically overstated. From [a blog post at the St. Cloud \(Mn.\) Times](#).

As state policymakers appear unlikely to make much progress this year on proposals to finance a new stadium with gambling revenues, the Vikings suggested a different approach in Twin Cities newspaper ads last weekend. They're calling it the "but-for" plan.

The plan would finance a new stadium in part with sales and income tax revenues that the Vikings say wouldn't exist but for their presence in Minnesota. That includes sales taxes collected inside the new stadium and income taxes paid by Vikings players and employees, and by players from visiting teams.

But Banaian, an economics professor at St. Cloud State University, says there's a gaping hole in the Vikings' logic.

The sales and income tax revenues the Vikings generate wouldn't necessarily disappear if the team left the state, Banaian says. He says at least some of what fans now spend at Vikings games likely would be spent elsewhere in the state – and thus, also generate sales-tax revenue – even if the Vikings left.

The claim that the tax revenues would be lost without the Vikings "is pretty clearly an overstatement," Banaian said. "It assumes that the fan who doesn't have the Vikings to go see, sits in their home and does nothing."

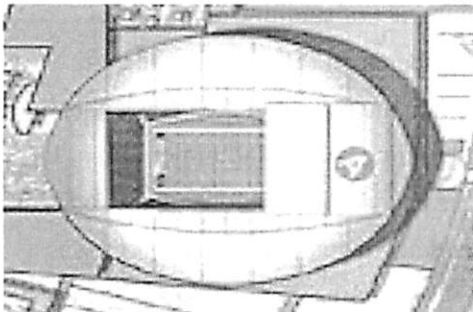
From MPR News – Minnesota Today: Pro and Con of Using Public Funding for a New Stadium

Should Minnesota use public financing to build a new football stadium (The Debate - 5/16 to 5/20)



[Michael Caputo](#) May 2011 [Permalink](#)

The Assertion: Public financing of sports stadiums in Minnesota should end.



The Minnesota Vikings and Ramsey County announced a plan to build a new football stadium and complex in Arden Hills. A half-penny sales tax increase in Ramsey County would help pay for the more than \$1

billion project.

The hope is for the state to kick in about a third of the cost - and some tax hikes for speciality goods such as sports memorabilia have been proposed there.

During the week of May 16, the *Insight Now* debate will look at whether it makes sense to use public funds to pay for sports stadiums. Join in the conversation.



[Michael Caputo](#) [May 2011](#) [Permalink](#)

Monday - Opening statements

Pro:

Dennis Coates - professor, economics at University of Maryland, Baltimore County

If given my choice, I would add a qualification to the assertion. Public financing for sports stadiums should end if the justification for the public funding is the unsubstantiated, disproven, or misleading claims by sports franchises and their hired-gun consulting firms that stadiums and the franchises they host are significant sources of economic development, income growth, job creation, and new tax revenues. In other words, end the misguided use of public financing of stadiums and arenas as a magic bullet of urban renewal and community revitalization.

Academic economists have for years studied the impact of stadiums and sports franchises on cities and metropolitan areas. The evidence of these studies is quite clear. There is no indication that average income in a metropolitan area was either higher or that it grew faster as a consequence of building a new stadium or arena. In fact, Brad Humphreys and I found when the entire array of professional sports and stadium influences were accounted for that the average income in a metro area was a bit lower than in a comparable city without that set of sports.

One criticism of work like Humphreys and mine is that sports and stadiums are too

small a factor in the overall economy to have a meaningful impact on average income. I agree with the criticism, which seems to me to be precisely the point, that these large impacts claimed by the teams, leagues, and consultants are just not plausible or are misleading. The focus of the criticism is, however, that the impact of the stadium will be more localized. In other words, the area or neighborhood around the stadium will develop, or redevelop, or the benefits will accrue to specific sectors of the economy, like hotels and motels, eateries, or services.

There are two points to make about this sort of argument for stadium and arena subsidies. First, the evidence on redevelopment around the facility is mixed. Modern stadiums and arenas have a wide range of amenities within their gates including numerous eating and drinking establishments, video arcades and souvenir shops. That limits the spending fans are likely to do in the local neighborhood, possibly harming businesses outside the gates. This redevelopment aspect is more evident some places than others. The second point is that even where this redevelopment occurs, it is largely at the expense of the rest of the metropolitan area. The new development by the stadium is a redistribution of economic activity from other parts of the city into the stadium area. Why bar and restaurant owners from Minneapolis and St. Paul should lose business so the people in Arden Hills have more bars and restaurants in their community is an open question.

Finally, government is tightening its belt all across the country, closing down fire stations, laying off or furloughing police, teachers, and university faculty. Infrastructure, like roads and bridges, is not being maintained as well as it should. In this context, it is hard to imagine that the very best use of public funds is in subsidizing stadiums for professional sports franchises.



[Michael Caputo](#) [May 2011](#) [Permalink](#)

Monday - Opening statements

Con:

Edward Coulson, professor of economics, Penn State University

An NFL team needs a stadium to play in. The owner of the team gets revenue from the ticket sales and parking fees and concessions in that stadium, so he or she will naturally (a) want a generous portion of those revenues; and (b) want to play in a big, fancy stadium that will generate lots revenue. Without both (a) and (b) the owner will threaten to leave for another city, and occasionally such threats are carried out.

When the threat is made, politicians will inevitably intervene, and quite often offer to subsidize the construction of a new stadium with a generous sharing arrangement for the NFL tenant. The usual rationale is that the presence of the team creates jobs and revenues for the city, bolstering its economic base. However, a multitude of studies from neutral observers provide evidence that except for the area immediately surrounding the facility, there is little to no economic benefit to the city through job and income creation. In the face of all this evidence, why do politicians often offer wealthy NFL owners such lucrative stadium deals?

The key point is this: People like sports. Of course people like wide-screen TVs too, but politicians don't go around handing those out, so why are sports different? It's because sports is a public good—it has an impact on the city far beyond the stadium. People express their taste for football not only by going to the games and spending money on parking and beer, but (even more) by watching the games on TV or at a bar, by listening to sports talk radio, and by talking about the team with friends, work colleagues, and even complete strangers on the bus. Sports improves the quality of life in a city. And so it brings a benefit to city residents, even if they never spend a dime on the team itself.

This is not brought up to generate sympathy for the owners, only to point out that the benefits of that the team brings to the city come in two forms. One is the tangible benefit of people going to the stadium and spending their money. The revenue from a new stadium might well be enough for the owner to pay for it out of his or her own pocket. But there is also the intangible, quality-of-life benefit, and this goes directly to the people in the city. These benefits also can easily be enough to cover the costs of the new stadium. (We could measure this by asking how much the increased demand

for living in, say, Minneapolis will raise property values; even a small increase suggests benefits that exceed the stadium cost.)

Second: It's the team, not the stadium, that creates the public good, so cities should only negotiate when the threat to leave is credible. But it will certainly be a tough bargaining problem. Both the city and the team want something that they both will benefit greatly from, but each wants the other to pay for it.

Third: Unfortunately for cities, the team holds the upper hand. Thanks to the monopoly power of the NFL, there are only 32 teams, and far more than 32 places that would like to be their hosts.

So yes, there is certainly a rationale for public subsidies for professional sports teams.

Associated Message Board Question:

How much of your own salary would you be willing to pay to keep your favorite sports team playing in your hometown? Explain why or why not you would be willing to make this sacrifice?

For full participation credit, you must post at least once in direct response to the above question and once in response to one of your classmate's post. Your post must be at least one complete sentence.