

UNIVERSITY OF GEORGIA
Department of Economics

Fall Semester 2009

Economics 4460
Sports Economics

Prof. Greg Trandel

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Thursday: 1:00 p.m. – 3:30 p.m.

or by appointment if you are not free during the above times

Nature of a Syllabus: Note that any course syllabus is a general plan for a course. It may be necessary to deviate from the plan laid out on these pages. The instructor will describe to the members of the class any such deviations.

Course Description: There are a number of reasons why one might apply the tools of economic analysis to sports.

First, sports is a significant business in the United States (as well as in many other countries). Economic analysis of the sports industry can include analyses of the objectives of team owners; the structure of a sports league and the resulting incentives; revenue, cartelization, and antitrust issues; competitive balance (considering its importance, policies (allegedly) designed to promote it, and empirical studies of the degree of such balance); the economic impact of sports activities, justifications (if any) for the public funding of sports stadiums, and franchise relocation; the determination of player salaries and league-labor-union relations; and discrimination against certain groups of athletes. When considering issues like those just listed, the class will generally focus on professional leagues. In addition, however, the class will consider some issues unique to the college-sports environment.

When addressing topics like those listed above, the class's approach will often be to cover a standard topic from "academic" economics, and then apply that concept to a particular example from the sports world. Some of the academic subjects will be ones that students have already covered in principles of microeconomics and/or intermediate micro. Examples include monopoly, prisoners' dilemma, marginal revenue product, and moral hazard. Other academic topics are ones that students may not have seen before. Examples may include vertical integration of monopolies and mixed-strategy equilibrium.

In general, the textbook follows this industry-analysis, topic-then-application approach. The class will use the textbook heavily for — roughly — the first half of the course.

A second motivation for linking economic analysis and sports arises from the fact that sports contests create a winner (and a loser) and often produce detailed statistics. Such outcomes and data allow analysts to investigate topics that are of interest both in the sports context and in broader society. Examples are dishonesty (throwing matches or shaving points), (possibly unintentional) discrimination, and the response of athletes to changes in incentives.

A third approach to sports economics considers how the economic way of thinking could help us analyze the choices made by coaches, athletes, general managers, or others in regards to the

actual play of a game, to post-play analysis, to assembling a team, or to making group decisions. Examples include mixed strategies (again), the application of marginal analysis to constrained maximization, and (although this may sound like it doesn't fit) the design of voting systems. Most of the topics listed in the last two paragraphs are not in the textbook; the class will use other sources to investigate these subjects.

Research in sports economics sometimes receives substantial media attention. Over the course of the semester, the class will cover at least a few of these of "current event" topics.

Textbook and Readings: The main text for this class is *The Economics of Sports* by Michael A. Leeds and Peter von Allmen, 3rd edition (Pearson, Addison-Wesley, 2007). You should have access to a copy of the book. Other readings — including both academic economic research papers and recent journalism — will also be required.

At least some of those additional readings will be posted on the class's eLearning Commons webpage.

Grading: Your grade for this class will be based on a final exam (worth 100 points, which counts for 33.3% of your semester grade), three in-class exams (each worth 50 points, or 16.7% of your grade), a paper (30 points; 10%), three homework assignments and class participation (a total of 20 points; 6.7%). Semester grades will be based on a 90–80–70–60 scale. The plus/minus grading option will be used for students who are quite close to the A/B and B/C and dividing lines. Note, however, that no C– grades will be assigned.

Paper: You will be required to write one (roughly) five-page paper, selecting (most likely) from a small menu of topics. More details will be provided in the first couple weeks of class. The paper is due Monday, December 7th.

Homework: Three homework assignments that count towards your semester grade will be distributed during the semester. These assignments will be due at the beginning of class on the following Fridays: September 11th, October 9th, and November 13th. The homework assignments will be checked, graded, and returned during the following Monday class. We will spend part of that class reviewing the homework questions.

Your grade on a homework assignment will depend (in part) on whether or not your answers are correct and (more importantly) on the amount of effort you put into doing the assignment. Late homework will not be accepted. If, however, you are unable to attend one of the relevant classes, you can hand in your homework early (up to 2:25 p.m. on the day the assignment is due) in my office. Feel free to work together on homework. However, each of you is required to write up and submit an *independent* answer sheet. This means that word-for-word copies will *not* be accepted.

Exams: Tests will be given in class on the following Wednesdays: September 16th, October 14th, and November 18th. These tests will be noncomprehensive and will cover the material presented in class up to and including the class preceding the exam, along with the relevant homework and reading material. The final exam will be given at 3:30 p.m. on Thursday, December 10th and *will be comprehensive*.

Each test will be a mix of objective questions and questions that require either written or calculated answers. The objective questions will generally be multiple choice. These questions can come from class alone, from the text alone, or might be covered in both sources. A good answer to a written-answer question will generally be a couple sentences long (longer or shorter answers might sometimes be appropriate). For these questions, partial credit will be given.

Graded exams will be returned to students on either the Friday or the Monday following each test day. On those days, the class will spend some time reviewing the exam questions. After this has been done, the exams will be returned to the instructor. Students can again see those exams

either in any of the instructor's office hours, or during the last class meeting (when the exams will again be brought to the classroom).

Test scores (as well as final semester grades) will be posted through the eLC system.

A student who misses a test without making prior arrangements will receive a grade of zero on that exam. If any circumstances that will prevent you from taking an exam arise, please talk to me as soon as you can. If you have any special problems, such as a potential "incomplete" grade, you may wish to contact the office of the Vice President for Student Affairs, at 542-3564.

Optional Fantasy Sports League: The following paragraphs describe a optional activity that will have absolutely *no* effect on a student's semester grade. Nonetheless, some of you may choose to participate, and two of you will receive modest (non-academic) rewards as a result.

A (private) (pro) football fantasy league — look for the Girdiron Challenge game — has been established at ESPN. Any member of this class can — if he or she wishes — join this league. The league is called "econ class"; the password is "sanford".

The league does not use a player draft. Rather, each participant has a certain amount of imaginary money to spend — on a weekly basis (with one complication; read the rules) — assembling a roster made up of NFL players. A roster consists of two quarterbacks, two running backs, two wide receivers, one tight end, one kicker, and one defensive-team/special-teams unit.

Each NFL player (unit) has a certain cost. In assembling a team, a fantasy player can't exceed his/her spending limit. A fantasy player's player/unit choices are limited only by his or her budget; they are not limited by what choices are made by other fantasy players.

Each week, a fantasy player gets points based on the performance of the NFL players/units selected. Read the description at ESPN to see how points are awarded. Also read the ESPN rules to see how the cost of an NFL player/unit can change over the season, and how that can affect a fantasy player's payroll.

To repeat, participation (or not) or performance in this fantasy league has no effect on a student's grade in the class. However, there will be modest cash prizes to the top three eligible finishers: \$25 to first place, \$10 to second place, and \$5 to third place.

Note, however, that a student must do one thing to be eligible for the cash prizes. He or she must submit (by the third week of the NFL season) a brief written description of how to think about assembling an optimal roster in this game using *standard tools of economic analysis*.

An unacceptable essay will be returned to the student for revision and resubmission. An acceptable essay makes the student eligible for the cash prizes. [Note: a student can participate in the league without submitting an essay — he or she is just ineligible to win any money.]

A final note: if at any point, the game isn't functioning as it is supposed to work, the explanation may be that I make some mistake as the game administrator. Please let me know about any malfunctions.

ECON 6460: Students who are registered for ECON 6460 rather than ECON 4460 will have to complete an additional assignment. Please talk to me about this fairly early in the semester.

Class vs. Text: The lectures and the reading assignments in this class are designed to complement (rather than duplicate) each other. As a result, to get the full benefit of the class, you must both attend lecture and read the assignments.

The exams will reflect the fact that the lectures and the readings are not perfect substitutes. In other words, some test questions will be based on class material that is not found in the textbook, while others may cover topics discussed in the readings, but not in class. Attendance will not be

recorded in this class, but the exam format ensures that your test scores (and your class grade) will suffer if you fail to attend class on a regular basis.

Academic Honesty: As a University of Georgia student, you have agreed to abide by the University's academic honesty policy, "A Culture of Honesty", and the Student Honor Code. All academic work must meet the standards described in "A Culture of Honesty" found at: <http://www.uga.edu/honesty/>.

Lack of knowledge of the academic honesty policy is not a reasonable explanation for a violation. Questions related to course assignments and the academic honesty policy should be directed to the instructor.

Miscellaneous: You hear this all the time; here it is again. Please keep up to date in this class — attend class regularly and read the assignments at the appropriate times. If you are having trouble understanding any of the material, come see me in my office hours.

On a related issue, please do not hesitate to ask questions. It is sometimes difficult to speak up during class. However, any instructor needs to know when he or she is going too fast or not being clear. Please ask questions — you'll perform a service for yourself, for your classmates, and for the instructor.

Approximate Class Schedule: The following material gives a rough idea of what topics (and what reading assignments) will be covered on each of the class's four exams. It's likely that the actual topics to be covered on each exam won't exactly match what is listed below. The precise coverage of each test, as well as the reading assignments for each week, will be made clear in class throughout the semester.

For each group of topics, there's a list of the relevant main reading assignments. There will be other readings added; the additional readings will be announced in class.

Changes in the material relevant for each exam, or in required reading assignments, will be posted in an updated syllabus found on the class web page.

• **Exam I (on September 16th):**

Topics: team owner objectives, profits and profit maximization, league structures, monopoly and cartels, competitive-balance issues, team movement, (public) financing of stadiums, and the economic effect of sports franchises and events.

Readings: Leeds and von Allmen, chs. 1, 3, 4, 5, 6, and 7 (note: the material from ch. 2 and its appendices — which covers theoretical and empirical economics — will not be covered in one chunk; various topics will be addressed at the time when that material is needed).

• **Exam II (on October 14th):**

Topics: labor-management relations, salary determination, pro-sports tours, college sports, discrimination, and cheating.

Readings: Leeds and von Allmen, chs. 8, 9, 10, and 11

Various material to be posted on eLearning Commons.

• **Exam III (on November 19th):**

Topics: optimal play, sequential games, mixed strategies, responses to incentives

Readings: Various material to be posted on eLearning Commons.

• **New Material for (comprehensive) Final Exam (on December 10th):**

Topics: applications of marginal analysis, voting, maybe more

Readings: Various material to be posted on eLearning Commons.

Semester Schedule Notes: The following dates are scheduled off days for the entire university: Monday, September 7th (Labor Day), Friday, October 30st (“Fall Break”), and Monday–Friday, November 23rd–27th (Thanksgiving Break). Finally, note that this class will meet (by UGA rule) on *Tuesday*, December 8th (this is to even out the number of class hours for M-W-F classes and Tu-Th classes).