

Managerial economics issues in pro sports: EPL Momentum, MLB Pricing, MLS Demand, and North American League Tax Policy

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Economics

Saturday, May 31, 2008

Workshop/Symposium/Forum

(75-minute)

Session 23

10:45 AM - 12:00 PM

Abstract 241

Symposium Content

"Momentum Effects in Pro Team Sports: What is the Transmission Mechanism?"

There is a widespread belief in the existence of winning and losing streaks not only in sport but in other aspects of human activity although the statistical evidence is mixed. We investigate momentum effects and their possible transmission mechanism using the dynamic HK (DHK) model proposed in our other work. Overall we find strong support for momentum effects and their transmission via the impact on the relationship between player team-specific HK and current performance. There is some indication of remaining specification problems, suggesting the need for further investigation of the appropriate functional forms required to fully capture the impact of momentum effects on team performance.

"Price Dispersion and Attendance in Major League Baseball."

Sports teams routinely charge different prices for tickets to games. Price discrimination is the most commonly used explanation for observed price dispersion. Tickets to sporting events are an interesting setting for research on the effects of price dispersion on consumer behavior. Unlike other some settings, the marginal cost of producing tickets to sporting events is identical for different tickets, providing a clean test of economic phenomena like price discrimination. Although we do not observe the number of tickets sold for each price category for most sports teams, data on total attendance are readily available, making it possible to analyze the effects of different pricing structures on overall attendance at sporting events. In this research, we examine pricing policies in Major League Baseball, and the relationship between price dispersion and attendance. This research will be of interest to (1) researchers studying pricing decisions made by sports organizations because of the unique nature of the data set and the general lack of scholarly research on price dispersion in sport management and (2) practitioners in sport management because of the practical lessons that can be learned about effective pricing structures from a careful study of the price dispersion attendance relationship in MLB.

"Short Run Demand and Uncertainty of Outcome in Major League Soccer."

The uncertainty of outcome hypothesis (UOH) states that fans want to see their team win in close games and at least contend for championships. There is a dearth of studies that address all forms of outcome uncertainty. This study builds on the existing literature in a number of ways including applying the notion of uncertainty wholly to a new league and sport, Major League Soccer (MLS), while being thorough in the construction of metrics quantifying uncertainty. To this point in the analysis of demand for MLS regular season games, the data suggest that game uncertainty is not a highly significant factor in fans' decisions to attend. If it is indeed the case that all types of uncertainty are similarly insignificant, this has tremendous implications in forming league policy. We find that this highly divisive issue among owners in other North American leagues, as well as between the owners and players associations in those leagues, has been a non-factor through the first eleven seasons of play in MLS.

"Bill Veeck, the IRS, and the Omnibus Tax Act of 2004."

The purchase of a professional sports franchise consists mainly of the rights to intangible assets (revenue shares, territorial rights, concession rights, player contracts). Thus the assignment of value to particular assets is quite arbitrary. Bill Veeck's

2008 North American Society for Sport Management Conference (NASSM 2008)

original approach was to assign the bulk of the firm's value to a particular intangible asset and then convince the IRS that he should be able to depreciate that asset. The intangible he used was player contracts and the so-called "roster depreciation allowance" was born.

We explore the history of this allowance, its implications for team ownership value, and the expected impacts on team ownership values after the Omnibus Tax Act 2004 extended it to 100 percent of team purchase price over 15 years. Gains under the new treatment of the allowance can be quite large for team owners that show net operating revenues of zero. Theoretically, it is straightforward to show the level of net operating revenues required to drive the value of this depreciation to zero. Thus, whether or not the new treatment will generate higher team prices is an empirical question worth further attention.