TEACHING SPORTS ECONOMICS TO SPORT MANAGEMENT MAJORS

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When compared to more traditional fields of study in the discipline, the application of economic principles to sport is a relatively new endeavor. It has been only 50 years since Simon Rottenberg (1956) published “The baseball players labor market,” the first article about sports economics which appeared in a top journal.\(^1\) As late as 1980, only 24 journal publications had appeared that covered sports, but since then the field has exploded: From 1981 through 2004 there were a total of 683 journal articles focusing on sports economics and the *Journal of Sports Economics* was founded in 2000 (von Allmen, 2005).\(^2\)

Commensurate with increasing research activity has been the growth of courses dedicated to sports economics. Economists with interest in the field have developed and offered courses in sports economics at more than 70 institutions in the United States and many more internationally (Humphreys, 2005). These courses are usually offered as upper-level electives for economics majors, and as such they are often taught assuming that the students had already taken courses in intermediate macro and micro theory and econometrics.

At the same time, the number of sport management degree programs has increased to the extent that today more than 170 universities award bachelors degrees in sport management in the United States (North American Society for Sport Management, 2006). Sport Management programs that desire to be accredited by the North American Society for Sport Management (NASSM) must include content areas in both “economics in sport” and “budget and finance in sport” in their curriculum. Since most sport management faculties do not have expertise in these areas, these courses are often “farmed out” to economics or finance instructors who express an interest in teaching the course. Most sport management majors would enter these courses with a background of only introductory economics and accounting, leaving them far less prepared than

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1 The 50th anniversary of Rottenberg’s paper was recognized by Fort (2005) and by Sanderson and Siegfried (2006).  
2 Jewell (2005) summarizes the current state of sports economics as a discipline.
an economics major taking the same course. This often led to frustration for both instructors and
students, since the mix of over-prepared and under-prepared students led the instructor to aim the
level of rigor somewhere between the two groups, a strategy with satisfies no one.

This paper will briefly trace the history of how the sports economics course was
developed, discuss how it developed its level of rigor, and investigate the problems that were
created when sports management majors began taking sports economics. It will also offer
suggestions as to how instructors can better serve the needs of sport management majors enrolled
in the class by designing the course to meet the NASSM standards and a level of rigor that is
appropriate with the students preparedness.

Sports economics for economics majors

The first sports economics courses were taught by economists that either had a research
interest in sports economics or were confident that courses in sports economics would be well-
attended. These courses were almost certainly offered as upper-level elective courses for
economics majors, who had already had taken introductory courses in macro, micro, and
statistics – more likely they had already taken intermediate macro and micro and econometrics.

As with any new course, one of the biggest hurdles that early adopters had was the lack
of a textbook. Instructors had to patch together their own quasi-text by using book chapters,
journal articles, and monographs. Since most of the material on sports economics was published
in peer-reviewed journals, the readings often relied heavily on calculus and econometrics to draw
their conclusions. It was the nature of the available resources, and the department where the
course was housed (economics), were what most likely led to the level of complexity and rigor
of those early sports economics courses. Instructors assumed that students had adequate preparation in microeconomics, calculus, and statistics, and presented their material accordingly.

In 1992, James Quirk and Rodney Fort published *Pay Dirt*, a monograph dedicated to sports economics (Quirk & Fort, 1992). It was essentially a survey of all the existing research in sports economics to date tied together with a brief narrative. Richard Sheehan’s *Keeping Score*, published in 1996, had content that could provide a useful outline of a sports economics course, but was devoid of any discussion the economic theory that underpinned his discussion. For different reasons, neither was appropriate as a stand-alone undergraduate textbook, so many instructors (myself included) used these books selectively and supplemented them with ancillary readings.

In 2001, Michael Leeds and Peter von Allmen published *The Economics of Sports*, followed a year later by Rod Fort’s *Sports Economics*. Both claim to be accessible to undergraduates with one semester of microeconomic principles, yet rigorous enough for advanced undergraduate and even graduate courses. The preface of Fort’s text is very clear on this: “*Sports Economics* is the only text that provides enough content and rigor for a course taken primarily by economics majors” (Fort, 2006, p. ix).³

As long as the sports economics course was populated mainly by economics majors or mathematically inclined students, there was no disconnect between the course materials and the abilities of the students. When sport management majors began signing up for sports economics, this was not always the case.

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³ In my opinion this is an overstatement, since Leeds & von Allmen is at least as rigorous and Sandy, Sloane, and Rosentraub (2004) is advanced enough to be used as a text in a graduate sports economics course.
Sports economics for sport management majors

In the late 1980s, the North American Society for Sport Management and the National Association for Sport and Physical Education began the arduous process of accrediting the increasing number of sport management programs in North America (Case, 2003). They created the Sport Management Program Review Council, and in 1993 published standards (known as the “NASSM/NASPE standards”) that became the benchmark for granting accreditation to sport management programs. Like most accrediting bodies, the SMPRC established minimum requirements for faculty, curriculum, course content, and so forth (Table 1). Programs seeking accreditation must offer the required content somewhere within their course offerings, either as a stand-alone course or integrated into another course. Since there are content area for sports economics (Table 2) and sports finance (Table 3), many sport management programs now require students to take a course in sports economics, sports finance, or some combination of the two to meet the NASSM/NASPE standard.4

Most sport management programs have only a few full-time faculty members. The additional course load is picked up by either adjunct faculty or faculty from other departments throughout the university with some expertise in the subject area. If sports economics was added to the curriculum, many sport management programs directed their students to take the course in the business school, where it would be taught by a member of the economics department. The student body would then be a mix of business students (primarily economics majors) and sport management majors, with each group bringing a certain level of preparedness to the course. Many of the sport management majors did not have background in microeconomic theory and statistics to succeed in the course, leading to problems for all involved. The sport management

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4 Despite the content requirement, Humphreys (2005) reported that only 16% of programs require sports economics, and only 48% require any economics course. That is low even considering that only about 25% of all sport management programs in the U.S. are NASSM/NASPE accredited.
chair complained to the economics chair that the course was too tough, and the economics chair chafed at the suggestion to “dumb down” the course as intellectually questionable and a disservice to their own economics majors.

Sport management departments realized that they would have to create their own sports economics course to prevent these problems and better serve their students. A stand-alone sports economics course for sport management majors could be tailored to the level of preparedness of the students, explore content necessary to meet the NASSM/NASPE standards, and focus on economic issues facing sport managers rather than pure economic theory.

Designing the sports economics course

The department must first decide on the scope of the sports economics course. Some departments will choose to have a course dedicated solely to sports economics, but many decide to kill two birds with one stone and satisfy the “budget and finance” NASSM/NASPE content area by naming the course “Sport Finance and Economics” or “Budgeting, Finance, and Economics of Sport.” On the surface it seems impossible to cover all the required content for both economics and finance in a single course, but as it turns out this is not as difficult as it may seem.

If the department decides to offer a sports economics course, the first decision is to choose a textbook. There are currently two sports economics textbooks in print from major publishers: *Sports Economics* by Rod Fort, and *The Economics of Sport* by Michael Leeds and Peter von Allmen. Having used both of the books, I believe that either can be used effectively for the undergraduate course – the choice is simply the personal preference of the instructor.

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5 Among accredited sport management programs, 98% require either sports economics, sports finance, or a sports economics/finance hybrid, and 44% require either sports economics or a sports economics/finance hybrid.
Cover the NASSM/NASPE standards. Designing a sports economics course that covers the “economics in sport” content area will be relatively easy, especially if the framework of either of the two popular undergraduate textbooks are used (Table 2). The basic required content (macroeconomic and microeconomic principles, supply and demand, and economic impact principles) will certainly be covered in any introductory economics course. This leaves only “economic theory applied to sport manufacturing” as the only required content area that is not explicitly covered. Three of the five recommended content areas are usually covered as well (television in professional and intercollegiate sport, and the economic impact of venues and events) and will meet the 50% requirement.

If the course is also required to cover the “budget and finance in sport” content area (Table 3), expanding the course to cover the required materials turns out to be easier than one might think. Basic accounting principles such as financial statement analysis, principles of budgeting, budget development, and spreadsheet applications will be covered in any introductory accounting course. “Sources of revenues for financing” is a topic that is often covered in the section of the course that the issues that surround facility financing – private v. public funding, bonds, taxes, personal seat licenses and so forth. Of the recommended content, “financing facilities” is already covered, and many of us discuss “the present financial status of the sports industry” when we cover profits, capital gains, and present the latest Forbes team values. With very minor modifications to the course outline, the NASSM/NASPE content area standards for both economics and finance can be covered in a single three-credit course.

Be willing to modify the rigor of the course. First, focus on the application of a theory, rather than its exposition. If the instructor is an economist, they should consider the fact that a sport management major has little interest in traditional economic theory for its own sake. For
example, when discussing the demand for tickets to a sporting event, the role of price elasticity of demand should be considered as to its effect on revenues, rather than proving students with demand data and asking them to calculate elasticity coefficients.

Second, translate mathematical notation into English. Instructors should know that many students have taken only college algebra without any foray into either calculus or statistics, so discussions about saddle-point equilibria and coefficients of variation may fall on deaf ears. One way to simply a complex topic while still getting the point across is to take an example from Fort’s *Sports Economics*, a discussion of how a league expansion fee is determined:

Because these local and national TV impacts are an identifiable estimated dollar amount, they can be included in the expansion fee consideration process as the change in the net present value to existing owners, $\Delta NPV_n$:

$$
\Delta NPV_n = \sum_{i=1}^{n} \sum_{t=0}^{T} \frac{V_{it} - C_{it}}{(1 + r)^t}
$$

. . . It is now easy to see how the expansion fee would be determined, in general. Suppose that the impact of expansion on national TV is positive and outweighs the impact of expansion on local revenues. In this case, $\Delta NPV_n > 0$, and expansion has a net positive effect on the group of current owners. The expansion fee ($F$) would have to be:

$$
NPV_e \leq F \leq NPV_n - \Delta NPV_n
$$

(Fort, 2006, p. 143)

All of those equations with the summation signs are likely to intimidate any undergraduate without a strong background in mathematics. A way to “interpret” all the mathematics would be to explain the concept like this: “The existing league owners would calculate how much their future profits will change due to expansion. This could be positive or
negative, depending on the impact on national TV revenues, so the expansion fee is actually the ownership value of the new team plus or minus the net effect on the revenues of the existing owners.” The typical undergraduate student is far more likely to grasp the concept in narrative form rather than mathematical notation.

Finally, try to design activities for varying levels of ability. Von Allmen (2005) identifies an excellent strategy for satisfying students with different backgrounds: Assign research projects that allow students with a good understanding of econometrics to delve into those issues at their own pace, while allowing less prepared students to choose less quantitative topics. Over the years I have permitted students to prepare term projects that were more based on marking principles than on economic principles, but as long as the object of the paper was to examine the profits of a firm or of a league I was satisfied.

Summary

A course in sports economics must be tailored to the audience. Since many sport management programs seek accreditation from the SMPRC they have been requiring students to take courses in sports economics as part of their degree program. Traditional sports economics courses, designed as upper-level electives for economics majors, are likely to be too complex for sports management majors without a strong background in microeconomic theory and statistics.

Sport management programs have responded to this problem by developing their own sports economics or hybrid sports economics and sports finance courses. Courses developed specifically for sport management majors can be tailored to the level of preparedness of the students, explore content necessary to meet the NASSM/NASPE standards, and focus on economic issues facing sport managers rather than pure economic theory. Some departments
have even gone so far as to hire economists to their own faculty when none of the existing faculty are willing or able to teach the course, a good sign for future students that are required to take the course.

There is still room for growth for sports economics in the sport management curriculum. Only about 16% of all sport management programs require students to take a course in sports economics, and only 48% require students to take any course in economics (Humphreys, 2005). Of those that have undergraduate programs that are accredited by the SMPRC, 44% require either sports economics or a sports economics/sports finance hybrid course. As more and more programs seek accreditation, the demand for sports economics courses will undoubtedly increase.
Table 1

*NASSM/NASPE content areas*

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<tr>
<th>Socio-cultural dimensions in sport</th>
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<tr>
<td>Management and leadership in sport</td>
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<td>Ethics in sport management</td>
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<td>Marketing in sport</td>
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<td>Communication in sport</td>
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<td>Budget and finance in sport</td>
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<td>Legal aspects of sport</td>
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<td>Economics in sport</td>
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<td>Governance in sport</td>
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<td>Field experience in sport management</td>
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**Table 2**

*NASSM/NASPE content area - Economics in sport*

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**Premise:** Sport is an industry in the national economy and, as a result, it is shaped by external economic influences. As a major national industry, it also contributes to the shaping of the national economy. The student will obtain an understanding of economic principles.

**Required content (all topics must be addressed):**
- Delineation of micro and macro economic principles
- Economic growth of the sport industry in the 20th century
- Concepts of competitive strategy (supply and demand)
- Economic impact principles
- Economic theory applied to sport manufacturing and service industries
- Economic theory applied to professional sports
- Economic perspectives applied to labor relations in professional sports
- Economic theory applied to stadiums and arenas
- Economic theory applied to intercollegiate sports

**Recommended content (a minimum of 50% must be addressed):**
- Relating infrastructure to competitive strategies in the manufacturing and service industries
- Impact of television industry on professional sports
- Impact of television industry on intercollegiate sports
- Economic theory applied to the sport club industry
- Economic impact of venues and events

Table 3

NASSM/NASPE content area – Budget and finance in sport

Premise: The student will understand why budget and finance in sport is a critical component of all sports related industries. The student will also be familiar with sound financial control, its methods and principles.

Required content (all topics must be addressed):
- Basic accounting principles – types of accounting
- Financial statements
- Sources of revenues for financing – public sector vs. private sector, governments, membership, fees, PSL’s, taxes, bonds, etc.
- Principles of budgeting – types (capital, master, departmental, line item, zero-based, PPBES)
- Budgets as a method of control, organization, and reallocation
- Budget development
- Spreadsheet utilization (Lotus, Excel, or Quicken’s Quickbooks) – basic laboratory experiences
- Financial aspects of facilities management

Recommended content (a minimum of 50% must be addressed):
- Present financial status of the sports industry – collegiate, professional, private manufacturers
- Concessions and merchandising – trademark licensing, inventory, cost control, cash management
- For profit and not-for-profit budgeting
- Development and fund-raising principles and methodology (campaigns, alumni, auctions)
- Financing facilities

References


