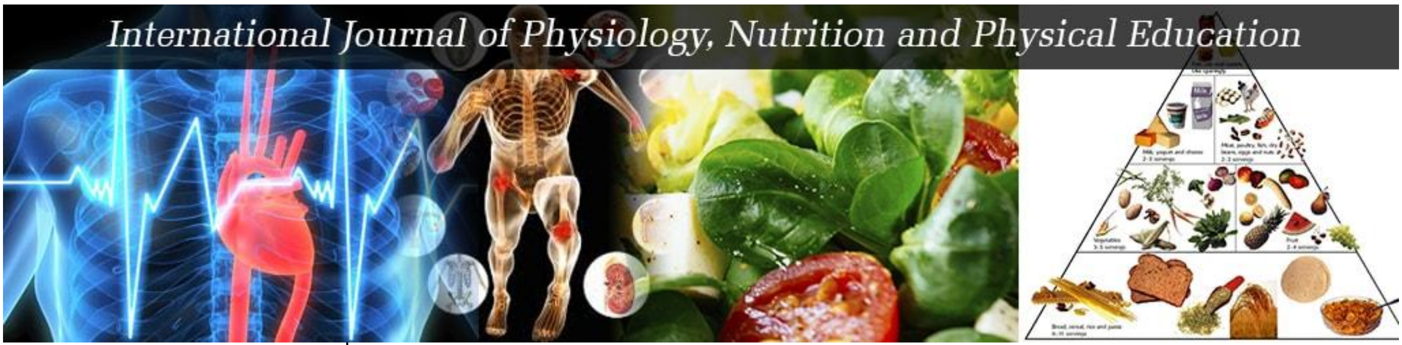

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Economics and sports industry in India

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Abstract
This paper will begin by listing the important concepts that will be covered. It should review these concepts after reading the paper to insure that the important concepts are understood. The continuing monopoly status granted to professional sports leagues allows them to violate laws that other industries cannot. Several landmark court rulings have allowed this status to continue. The labor market is more restricted in most professional sports leagues than is the case in other industries. A brief summary of the economic issues that sports leagues face is given. These issues pertain mostly to labor markets, broadcasting rights and the level of competitiveness in the industry.

Keywords: Economics, sports, marketing, leagues, amateurs

Introduction

Sport is clearly both economic and socially important to lndia. It is widely acknowledged that sport makes a significant contribution to the social psyche. All sport from a major international event involving professional competitors to a local competition for amateurs makes an important contribution to the economy. The professional sports industry is an industry of growing interest in economics over the last twenty years or so. The sports are also big business and most people consume the products produced directly or indirectly by the professional sports industry in some way. Many other industries rely on the professional sports industry to survive. From printed media, to national, local and specialty cable networks, to food services, marketing, construction, transportation and other industries that spin off of professional sports. While the economic size of the professional sports leagues themselves is not large, their importance to Gross Domestic Product (GDP) is significant.

Professional sports leagues possess three important characteristics that distinguish them from other industries. First, they are allowed to engage in business practices that, by law, are not allowed in other industries. Second, their labor markets are more restrictive, yet more lucrative for their employees, than other industries. Third, a single firm (team) in the professional sports industry cannot survive without the presence of other firms (teams). While we can think of a professional sports league as a single firm, we can also think of the teams that operate within the league as individual firms who agree on playing rules and business practices in order to insure survival of the league. We might think of the teams in a league as cooperating on a sort of joint venture.

A monopoly is an industry with only one producer. While professional sports have many competing teams in different sports, each team is a member of a league, which acts as a monopoly when representing the interests of the owners of the member teams. To maintain its position of power and profit, the monopoly must engage in practices to prevent the growth of competition from rivals in its sport. Rivalry and competition from other leagues can reduce profitability for all teams in all leagues (that play the same sport). A professional sports league controls the establishment of new franchises and where each franchise is allowed to operate. Usually a large majority of existing owners must support the establishment of a new franchise, and the owner of the new franchise must pay a large franchise fee to the existing owners for the right to join the league. A common set of rules and a fixed playing schedule controls the quality and frequency of a team's output. The league negotiates broadcasting contracts with national television broadcasters in order to maintain high royalties that are distributed evenly to each team owner, although individual teams may negotiate their own contracts with local broadcasters in some cases. The league also negotiates national contracts for apparel and licensing of team logos. The movement of players to different teams is restricted in order to maintain lower payrolls and to encourage competitive balance. The use of a draft system also restricts which players can find employment in a sports league. The league can also establish strategies on pricing, marketing and new franchises to deter entry by new rival leagues. All in all, a professional sports league places a lot of restrictions on the business practices of its owners, mostly in the interest of maintaining profits (although some owners will argue that profits are infrequent).

Basic Principles of Economics Applied For Sports Industry

This section is that lay out the necessary economic principles to be used throughout the paper. It is assumed to already know some basic principles from a previous introductory economics course.

- The definition of a demand curve, the Law of Demand and its assumptions, and what gives rise to the slope and shift of a demand curve.
- Price elasticity of demand, income elasticity of demand and cross elasticity of demand. What they are and what are they used for?
- The definition of a supply curve and what gives rise to the slope and shift of a supply curve.
- The concept of equilibrium. The mechanics of how a market moves to equilibrium of demand and supply. The definition of consumer's surplus and what it represents.
- Dynamics, or shifts in the demand and supply curve and their effects on prices and quantities.
- The special case of the all-or-nothing demand curve and why it is relevant.

All demand curves are assumed to obey the Law of Demand: as the price of the good falls, the quantity purchased of the good increases. If the average ticket price is plotted on a vertical axis and the number of tickets sold is plotted on a horizontal axis, the demand curve for tickets slopes downward.

The slope of the demand curve is determined by the availability of substitute goods. If a good has many substitutes available, the demand curve will be relatively flat reflecting the fact that an increase in the average ticket price will cause many fans to switch their purchases to other forms of entertainment. A good with very few substitutes available will have a relatively steep demand curve since fans will be more insensitive to increases in ticket prices. Some sports teams sell out every game. This does not mean fans believe there are no substitutes for the club's games, rather that the team has reached a stadium capacity constraint. There are always some substitutes available for any good, so if ticket prices are raised too high, drops in attendance will result unless the stadium is small.

Professional sports clubs do have some ability to influence the local demand curve they face. A rather unique feature of the professional sports business is that improvements in the quality of factor inputs can shift the demand curve for tickets to the right. This could be the case when a club acquires more talented players and enjoys greater team success. Casual evidence suggests that fans do appear to support clubs that are more successful on the field In other industries, firms can shift the demand curve they face to the right through the use of advertising or improving the quality of their product, an output. In professional sports, improving the quality of an input (labour) can have the same effect. Some clubs choose not to do so. Perhaps this is because the shift in their demand curve would not be large enough to warrant the higher costs of player talent.

The price elasticity of demand is a numerical value, which describes the sensitivity of quantity demanded to changes in the price of a good. It is computed as the percentage change in quantity demanded divided by the percentage change in price.

If the absolute value (drop the negative sign) of the price elasticity of demand is greater than one, the demand curve is said to be elastic, implying that quantity demanded is very sensitive to price changes. A price elasticity less than one in absolute value is said to be inelastic, implying that quantity demanded is not very sensitive to price changes.

If the demand curve for tickets is elastic, total revenue will rise with reductions in ticket prices and will fall with increases in ticket prices. Estimating price elasticities is difficult for team owners since income, substitute goods prices and tastes must be held constant so the demand curve does not shift. Surprisingly there is very little in the academic literature concerning estimates of price elasticities for professional teams or leagues. This is probably due to the difficulty in obtaining reliable ticket price data going back in time.

It is important to note that the price elasticity of demand takes on different values along a fixed demand curve.

The income elasticity of demand gives an indication of the sensitivity of ticket sales to changes in real incomes. Real income is the purchasing power of income. Typically real income is computed by dividing dollar income by a consumer price index. The income elasticity of demand is computed as the percentage change in demand for a given percentage change in real income.

The supply curve represents the minimum price a producer must receive to produce a given quantity of goods or services. Thus the supply curve is a lower bound on the producer's price for a given quantity of goods, but he may be able to extract a higher price. There is no law of supply. The supply curve can slope upward or downward depending on the cost conditions facing the firm. Conventionally it is drawn upward-sloping since, in most industries, to produce more output firms must hire more factors of production (labor, capital, land, etc.) which raises the minimum price the firm needs to produce more output. However if firms are able to purchase factors of production in bulk and receive a lower unit price per unit of factor, the minimum price the firm needs could fall as more factors are purchased. A movement along a fixed supply curve is change in quantity supplied, caused by a change in the product price.

The market price of the good is found where the two curves intersect, at price Po. At this price. the maximum amount the last consumer at Qo is willing to pay is just equal to the minimum amount the producer must receive to produce Qo. Every consumer who wants to buy the good at price Po can do so. There will be no shortage or surplus of the good.

The price Po is called the equilibrium price. This means any movement away from the price Po results in a movement back to it. Inventories will accumulate which sends a signal to producers to both lower production and to lower their prices.

Player salaries account for the majority of the costs of running a professional sports team. Why do some players earn far more than others? Are the rapidly rising salaries in all sports justified by the player's performance? Before answering these questions, we must develop the basic model of factor pricing. Factors are inputs used to produce outputs. ln economics we usually group factors into capital and labor. Capital is composed of goods that are used to produce other goods, but are not final consumption goods themselves. Machines, buildings, education and training are all forms of capital. Professional sports teams do not use a lot of capital if we measure the output of the team as sales of tickets. in the short-run. we can safely assume that the capital stock is fixed for the team owner. The Fixed capital the team uses is the arena or stadium, team buses and planes, and office equipment. These capital items do not change with the level of output of the team (tickets), except in the long-run if a new arena or some other capital equipment is required.

As a team acquires more talent, output rises (more fans in the arena) but the effect of the increasing stock of talent on fan attendance diminishes as more minutes are played. So ticket sales increase as team talent (and success) increases, but at a diminishing rate.

The marginal product of talent is the change in total product (ticket sales) when the stock of talent increases by one “unit”. It can be found by taking the slope of a line drawn tangent to any point on the total product curve. The slope of the tangent line decreases (becomes flatter) as output increases, hence the marginal product of talent diminishes as total product rises. This result comes from the assumption about the shape of the production curve.

Conclusions and Suggestions

Our sports industry is still in a rather nascent stage and labour laws, league regulations and the like are not matters of mainstream consciousness. With increasing market maturity and the need for clear and comprehensive legal documentation, sport issues are slowly becoming a major focus as contracts must be able to clarify parties' expectations and' commitments, must protect the athlete's and the brand's big-picture interests and must factor in regulatory, legal and other risks inherent in the industry.

With the emergence of league cricket in India, the one question that does arise is what will drive the success of such a league? The simple answer to this question is demand. The fan base determines demand, and demand translates into revenues, profits and franchise value in that order. The league will be financially viable if the entertainment that is packaged. marketed and sold is what the fans demand.

However, in the long run, interest in [FL matches will be determined by the level of competition in the league. The professional sports leagues in the US have striven over the years to ensure “parity” as the price a viewer is willing to pay is directly related to the enjoyment he gets from watching the game. Therefore, it is in the interest of the league organiser, BCCl, to ensure an adequate level of competition that will sustain demand and determine the long-run viability of the league prevails.

Furthermore in sport, the aim of the game is not to eliminate the weaker competitors. There is interdependence between competing adversaries and a need to maintain a balance between them to preserve uncertainty as to results and a degree of equality in order to maintain the spectators’ interest. It is this unique feature of sporting competitions that Competition authorities must bear in mind, for professional sport teams would be free to cOOperate in the ways necessary to maintain competitive balance and to achieve other efficiencies that make their brand of sport popular with fans. The leagues, however, should no longer be allowed to misuse their monopoly power to maintain restrictions on competition that enhance their profits at the expense of its competitors and consumers.

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