Superstar is a team economics essay

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Superstar is a team use to describe that the people who got special who is widely known, prominent and successful to dominate the fields in which they engage and superstars normally earning enormous amounts of money. This essay is trying to explain and analysis this phenomenon in the labour market of sports industry. The reason for the superstar phenomenon might cause by many factors. Production in the world of sports, as noted by Neale (1964), is decidedly different from production in most other markets. Argentine professional footballer, Lionel Messi is the world's highest-paid football player, The talisman of Barcelona, Messi , earns some 33 million euros ($43. 5 million) a year with a 10. 5-million-euro salary, 1. 5 million euros in bonuses and 21 million euros in advertising and other contracts. (Levine, 1991)This salary might be far more than normal worker. There are many reasons for the super star phenomenon and the labour market of superstar will be analysis in the rest part of the essay. This essay is aim to use economics model to explain the reason of the high salary for super stars in sport industry.

Main body

Assume that the labour market is perfect for athletes. Players are all identical. The labour market can be explained by the perfect competition model. In the figure 1, profit maximization requires that the MRP curve cut the MC curve from above. The firm gives up profits if it operates at point a because adding units of labour beyond the intersection adds more to revenue than it adds to costs. Once the firm reaches point b, adding more labour would result in the costs of each unit being higher than the revenue that unit generates. In long-run equilibrium in a perfectly competitive industry in a perfectly competitive industry only normal profits are earned. At that situation employment would be at E1, and the wage at W1, since ARP equal to MC. If above normal profits were being earned by the firms in a perfectly competitive industry average revenue product would be forced down by the entry of new firms.

(Figure 1)

In labour market of sports industry, monopsonist market means that there are too few of buyers so that the price of labour increases if a team attempts to employ more. (Sandy et al, 2004) Assume all the firms in the league are aim for profit-maximized. The monopoly power of sports clubs makes the question of motives important because the monopolies have much more discretion over pricing and output levels than do competitive companies.

A model (Figure 2) is applied to determinate the salary for athletes. Team rosters are usually fixed and it is more sensible to consider the supply of labor in teams in units of quality rather than in the number of players. Even if

the rosters were not fixed, if a club already has many players it may not be sensible to add another player of average quality. As superstars are extremely scarce, the supply of labor measure in quality units is not perfectly elastic. To add a unit of player quality the team has to pay a higher price than it paid for its last unit of quality. Marginal factor cost (MFC) is cost of hiring an extra unit of quality. Marginal revenue product (MRP) is additional revenue that the league receives as a result of hiring each additional unit of quality. The wage that tem willing to pay will be located at the intersection of MFC and MRP because marginal cost equal to marginal revenue is the maximum of profit. The profit will be maximized at W1 with L1 unit of player.

(Figure 2)

In the labour market of sports, athletes with outstanding talent are monopolistic due to scarcity and restrictions on mobility, especially draft system in US. The Agent or player's unions also act as monopolists on account of there are very few union and most players are in the same union in each sport. The union helps player to bargain for their salary therefor it act as a single seller in the market. Similar to (Figure 2), the model (Figure 3) for player's union determines the wage level for salary at the intersection of MRP and MC, where marginal cost equal to the marginal revenue product. The profit maximized for player's union at W2 and L2 unit of player.

(Figure 3)

Because of the draft system in some sports is more special. For example in US, the teams drafted player from college and buy them. The trade, with only one seller and one buyer involved, has been defined as Bilateral

Monopoly. The model of Bilateral Monopoly (Figure 4) is like combination of (Figure 2) and (Figure 3). The W1 stands for Monopoly wage and W2 is Monopsony wage. The salary will be between W1 and W2 depend on the bargain.

(Figure 4)

In superstar markets, tiny differences in talent at the top of the distribution will translate into large differences in revenue. " sellers of higher talent charge only slightly higher prices than those of lower talent, but sell much larger quantities; their greater earnings come overwhelmingly from selling larger quantities than from charging higher prices" (Rosen etc. 1981), Just like the (Figure 4). As the talent of player getting close to the top along the curve, little tiny change of talent can cause significant change in the salaryhe reason for this phenomenon is because the special skills are had to copy and it has been defined as productive of the players.

(Figure 5)

For non-team sports the difference is much easier to find that widely spread prize money. As Non- team sports normally don not have salary, the prize reward monitoring the relationship of the talent and the earning. An example is the prize reward of Wimbledon Tennis Championships, first prize money is 1, 150 thousand pounds and the second place's prize is 575 thousand pounds, the rest of players only share very little amount of money. (Hogg, 2012)The reason for this is because of the match host trying to have more attraction of latter game and match. The Tournament theory has the same pattern of (Figure 4). The theory used to describe certain situations where

wage differences are based not on marginal productivity but instead upon relative differences between the individuals.

In the study of labour market of super star, Sherwin Rosen (1981) found that threats of potential entry force the market became equilibrium. Free entry implies that total revenue must be driven down to opportunity cost P2 . Assume the buyer paid at P1. the value excess the P2 is profit and another seller would like to join in the market to share the profit . This behaviour will definitely shift price to P1 and makes profit to zero.

(Figure 6)

Even professional player are only for one kind of sport, but individual player have different talents they cannot simply shown by (Figure 5). Therefore using (Figure 7) to explain the situation. The superstars can make profit base on their unique talents. There are limitations of distance of competitors and unit rent, but total revenue for superstars still large because of scales economies. There might be a lot of people can do the similar skill but one skill by a professional player is still very special. Since the services produced by more talented sellers are less contaminated by crowding, the quantity-price gradient grows as talent increases. Therefore the better sellers can and do handle much larger players in equilibrium.

(Figure 7)

Hausman and Leonard (1997) found the presence of stars had a substantial effect on television ratings, even after controlling for team quality. Berri(2004) used data of NBA proved the relationship between the Gate

revenue and the star player is significant. As Hausman argued, the star power attracts the fans. The analysis made by Berri (2004) also shows the star player have a strong relationship with number of wins, which also been assume as the performance of the team. A super star is not only benefit the own team which also benefit the competitors. As the product of the sports game is normally

Broad casting has become an increasing source for the revenue of most of sports league for the last several decades. In the case of the National Basketball Association, each team's financial situation depends significantly on the revenue it generates through its local television contracts and national television contracts. Television Station are willing to pay high levels of rights fees to NBA games because they can charge high advertising rates to advertisers and because they add incremental subscribers. Advertisers are attracted by sports programming because it provides access sizable numbers of the funs of super stars. The famous case might be the return of Jordan's first game, the highest NBA regular season game rating since 1975, generated a rating of 10. 9 %.(Hausman et al 1997) For example, Manchester United benefit from the distribution and broadcasting of live football content directly from the revenue. The Manchester United with huge amount of fun around the world helps the club with its commercial achievement and utility (Hogg , 2012) . Since a super star can draw so much attention and increase large amount of revenue . it is no doubt that a club would like to pay such high salary to these professional players.

For example, Manchester united generates revenue from multiple sources, including sponsorship, merchandising, product licensing, media and mobile,

broadcasting and match day. The super stars effects are not only happen during the matches, but also for the league commercial revenue. The Manchester United is not only a club with super stars . It also trying to combines the power of super stars to build up its own brand. Manchester United sells competitive sports apparel, training and leisure wear and other clothing featuring the Manchester United brand on a global basis. Over 5 million items of Manchester United branded licensed products were sold in the last year, including over 2 million Manchester United jerseys. Manchester United branded products are sold through over 200 licensees in over 130 countries. Super stars earing money when each product with their copy rights. (Hogg , 2012)

Limitation

In this article, many situations and factors in the real word has been neglected as it is easier to analysis the labour market. Firstly, there are uncertainties of hire a new player. Secondly, when a team sign the contract with a player in long term, there is no guarantee for the quality of performance. Thirdly, Team work is also important in the real world. Finally, the club is not able to keep observe player's future quality and effect.

Because of the superstar phenomenon, many experts believe it reduce the competitive balance . Therefore , some policy and rules has been used to prevent from it , for instance, Luxury tax , Salary cap and gate sharing increase the competitive balance.

Conclusion

The labour market of superstar holds a key position in the analysis of the economics of sport and of professional team sports in particular, as a consequence of monopsonists and monopolists. The situations in sports labour markets are bilateral monopolies with only one buyer and one seller and the wage for player is indeterminate. Super stars with special abilities are scarcity and restrictions on mobility. Professional plays earning far more than others for tiny talent change when the talent level is relatively high. The combination of technology consumption and imperfect substitution leads to sport superstars can own a large market size and income at a same time. Power of super star also attracted fans and consumers to see their matches by live matches or broadcasting. Moreover, club can use the superstars to build up their brand and earing revenue from global basis funs. Even leagues of sports try to increasing the competitive balance of the labour market by using restrictions like salary cap; however, it is clear that super stars still deserve the high income and honour after the analysis all above.

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