

Sports economics flashcard



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Economists define market failure as the condition or situation where there is inefficient allocation of goods and services by a free market. It is as a result of failure to abide by consent of the buyers and sellers. Economist sees the government as a big contributor of market failure. Some government policies interventions may in one way or another lead to inefficient allocation of resources. Such policy could be taxes or subsidies.

Other causes may include monopoly by one agent in the market It can also be taken to mean, a situation in which the behavior in the market where an agent would fail to produce a Pareto optimal allocation. This causes imperfect competition that can lead to inefficiency. Monopolies, cartels and monopsonies are some of the forms of imperfect competition can occur when the agent fails to implement best price discrimination. Another cause of market failure could be due to the nature of certain goods or the way they are exchanged.

For example, goods and services can display common-pool of resources or public good attributes; while the market may have agency problems or asymmetrical information . The other major cause of market failure could be the agent's actions. They could have externalities . All these causes can result to market failure due to inefficiency.

Economists define externality as an impact in a given economic transaction. The result of externality could be either negative or positive. It usually occurs when a given decision benefits or causes cost to the stakeholder. They are the spillovers or the neighborhood effects. Sports Economics is a firm that provides marketing research analysis to people in the fields of sports.

It also gives economic and financial analysis. It gives professional consulting services to the sports business and entertainment community. This firm is based at San Francisco Bay Area. Market failure is one of the reasons that's makes the government of the day to get involved in sports. Market failure in sports can be caused when a private market entity operates its functions successfully but it does not meet the full effects of the market on the interest of the society and economist. There are some causes of the market failure are relevant to the sports market.

These market failures make the government to intervene as it is capable of preventing or compensating the market failure. Sports market failure can be categorized into two; they are related to equity and efficiency. The market is said to be efficient, if the sport generates a social benefit that are higher than the private benefits for the participants. An efficient sports market should put into account the participating individual's value and at the same time consider the cost of supply. If it fails to consider any other social benefit, the desirable social output may not be produced by the market because it will have under-provided the resources to the sports market. Social optimal level of production provides for both private benefit and the social benefit.

Though it is unlikely to be done by the private market, reducing the price in the sport will generate the social optimal level of consumption. This is where the government comes in to support the social welfare. It is capable of encouraging high rate of production and consumption of sports. It is capable of supplying direct products at lower rate than the private market would .

Sub-sidized supplies for participants in both commercial and voluntary sectors can also help. The second cause of sports market failure is that of equity. What the government would call equal distribution of resources may not be equated to what a private market would call equal distribution of resources. They may not be consistent.

The government may due to this equality subsidize certain products to suppliers with an aim of equitable distribution of resources, products and sporting activities. Other market failures that are related to sports may include public goods, health and crime among other things. The racing and betting legislation This paper will look at a particular sporting activity to show the occurrence of market failures and how to avoid them. Market failure in sports as earlier defined is simply a failure to maximize collective welfare from a sport market operation.

This creates an opportunity for government intervention. Some forms of market failure in racing and betting may include, imperfect competition-a situation where there bargaining power is unequal between the market participants, externalities -this is a situation where the racing activity's costs are imposed on others rather than to the individuals or the business for example, the gambling problem. There is also the issue of imperfect information such that the racing participants are not equally informed. To ensure that market failure does not occur, a number of things need to be done by the managers of these activities. One there is the need to enhance integrity of the activity. This would help to reduce the chances of criminals influencing the outcomes of the races for individual gain.

In gambling it is quite important to offer a good responsible gambling for betting participants. The “ free-rider” issue needs to be addressed. This is where the participants of gambling services use the platform of racing and betting without contributing anything towards conducting the racing. Safe” racing and betting should be given a priority, for example health, occupational and safety terms for racing industry consumers. Creating and maintaining integrity in racing product is essential because it create confidence in the customer. If the customers are uncertain about a particular event or activity they will be inclined to bet because they feel it is corrupted.

The high access to gambling will encourage problems associated with gambling thus the need to protect both the participants and the industry itself. It would be important to have strict rules and regulations to avoid free-riding. This makes the sporting activity to be under-provision. Minimum standards of competency are encouraged to reduce incidences of endangering the safety of participants because racing is a risky activity especially for participants like drivers and jockeys. Sports and health In sporting events and activities, the government intervenes to avoid market failure. There is a relation ship between participating in sports and health.

Participating in sports benefits the participant’s physical and mental health thus the government getting involved in promoting sporting activities.

Physical activities reduce chances of coronary heart diseases. A survey showed that companies that encourage and have physical fitness programs had improved quality and quantity in production, minimal absenteeism, reduced industrial injuries and improved co-operate image. There were also situations where, there were negotiations for lower premiums with insurance

companies incases where the company had full medial insurance cover on its employees. Despite these positive attributes, sports cause injuries. A survey conducted in 17, 564 sports participants of different sports and showed that 45 percent of these sportsmen had injuries related to the sports as they were either rehearsing or doing the activity.

Majorities were men and of ages between 16-25. Rugby, cricket, hockey and soccer were said to be the most risky sports. The government intervenes by subsidizing medical cover especially the participants who are involved in sporting activities with high risks and those with high benefits to be gained. The government should also offer a general subsidy on all sporting activities to participants on health grounds.

Sports and crime Sports and crime are also related by extension. Most sporting activities are done by youths and they are also known for criminal activities. These criminal behaviors account for market failure due to lack of constructive information alternatives and skills for enjoying. The government needs to come in and assist in sporting programs that are aimed at reducing crime. The participant develops good physical fitness, he gets employment and high self esteem is enhanced.

It should subsidize sporting programs that aims at reducing crime in the society. Public good The government should be involved on the basis of public good in promoting sports men with good performance by giving them financial support. Sponsorship is another market failure in sports when it does not produce effectively on the public good. The main role of sponsorship is financing the events undermining the process of production

like training, coaching and other support services, thus not conducive to bringing out an excellent sport.

The government should be involved in subsidizing in sports due to “preservation values” that include, the willingness to pay in order to participate in an event and the willingness to pay for an event putting in mind the future generation. In a general conclusion, market failure is the condition or situation where there is inefficient allocation of goods and services by a free market. The government may interfere with sporting activities and events in cases where the market is not efficient enough. It supports the sporting market by mainly subsidizing and promoting sporting activities because sporting activates encompasses the social life of its citizens.