

Thesis



**ASSIGN
BUSTER**

Department of Economics Premier League Is it the case that economic prosperity leads to sporting success or is it sportingly success that leads to economic prosperity?

“ The dominance of the big four”

An empirical study

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1 Introduction

Many researchers have shown that traditional economic tools can be used to effectively analyse football (Torgler, 2004). It is a common perception that success in sports like football leads to economic prosperity. There are a lot of examples to demonstrate this relationship. For Tom Osborne's fantastic career as Nebraska's manager undoubtedly helped his political career, in which he was elected to the U. S. Congress (Brown, Farrell, and Zorn, 2007). Manchester United's manager was given the title "sir" for his awe-inspiring efforts. One of the worlds best footballers of all time is currently the president of Union of European Football Associations (UEFA). 1Further, football has become a big business game, and all of the English Premier League clubs are currently listed on the London Stock Exchange. By purchasing popular players from different parts of the world, especially Asia, and by holding their training camps in different parts of the world, i. e., effectively touring, clubs are using strategic marketing, thereby creating a significant source of income. This is due to the large population and the rapid development in economic terms of countries to which they are marketing

(Ashton-Jones et al., 2008: a). For example, the first appearance of Chinese Lie Tie and Sun Jihai in the English Premier League was broadcast in more than 700 million Chinese homes (Desbordes, 2006, p. 7).

On the other hand, leisure activities have been proven to be “ a normal good;” i. e., the demand for leisure increases with increasing income.

Research has also shown that the residents of the wealthiest countries spend more time engaging in leisure activities, such as football (Houston and Wilson, 2002). 2 Contemporary indication shows that economic prosperity may lead to sporting success than the other way around. Recent evidence indicates that after 1996 since the Bosman ruling, the success in football is dominated by the England’s richest four teams (i. e. Manchester United, Arsenal, Liverpool, and Chelsea) called “ the big four”. The dominance of these teams since 1996 has led to think that economic prosperity may lead to sporting success in football.

Thus, whether economic prosperity leads to sporting success in the case of football or vice versa is unclear and needs to be proved empirically. This is needed to find out the contributing factors for the widening splits between richer and poorer football clubs. This can be considered as a type of inequality between haves and have-nots in football market. This inequality is now increasing and hence the relevance of such an empirical study.

In this paper, the focus is on the English Premier League (EPL), which many researchers have investigated and have shown to be a “ normal good” in relation to the league’s income elasticity (Simmons, 1996). The main purpose of this study is to examine whether after the Bosman ruling the big four clubs managed to monopolize football England (similar patterns are found in other European leagues) or not. This is examined because the

football industry has changed completely after the Bosman ruling. Before this rule, the clubs had total control over their players, even if the players were without a contract. After the Bosman ruling, players without a contract became "free agents", i. e. players can change clubs without their current club get paid. This increased player mobility in Europe (more on this in section 2. 1) and top players have got the incentive to move to the richest clubs which resulted in high sport success by these clubs.

Similarly, a development of the former claim, it is demonstrated that the UEFA Champions League has been a major factor behind the widening gap between the big clubs and the smaller clubs. It is also shown how the clubs financial status can also be a contributing factor to the expanding split between the clubs.

To illustrate these claims, an empirical study is done. The empirical methods consist of a panel data analysis and a Probit model. The observations include data from all teams that ever played in the English Premier League, during the period 1993-2007.

It turns out that the clubs have had a tremendous economic growth after the Bosman ruling. Moreover, it appears that the clubs who qualify for the UEFA Champions League get more money than teams that do not participate in this tournament. These results are expected and significant. These two findings have created a situation where some clubs have been able to monopolize football England. Therefore, these clubs have been able to offer higher salaries, which in turn have attracted the best talent to these clubs and hence increased the quality of their troops. Furthermore, when these clubs raise the quality of its squad, it appears that the audience levels increase, leading to a growing economy.

This paper is organized as follows: in Section 2 describes the English league and the most basic elements in football; and in Section 3 presents the empirical strategies and methods; in Section 4, the data base and where the statistics were obtained are described ; Section 5, analyses the results, and finally, in Section 6 concludes the thesis. .

2 The English Premier League (EPL)

The English Premier League (EPL) was established during the 1992/1993 season following major teams breaking away from The Football League as the league was called at that time due to the lucrative television contracts that were offered. 3 Since that time, the EPL broadcast revenues have increased from £170 million in 1993 to £1900 million in 2008 (see appendix; Figure A1). For instance, a contract covering the years 2007 through 2010 provides an annual broadcast turnover of £2. 7 billion in exclusive income from European cup tournaments. The distribution of the revenue between clubs is as follows: 50% for solidarity, 25% for quality, and 25% for provision fees based on appearances, (Ashton-Jones et al., 2008: a; Vrooman, 2007). Therefore, " The Big Four" (i. e., Manchester United, Arsenal, Liverpool, and Chelsea) generate 40% of the EPL broadcast revenues.

In this essay, the enormous gap that has been created between these elite clubs (i. e., " The Big Four") and the rest of the teams in the EPL as well as the teams throughout Europe will be discussed. To show the significant differences that were created in England, as well as in other countries, a method is introduced, which can be used when one is interested in knowing which n firms that dominate a particular industry. This may also be applied in sports, where you look at the number of points taken by n clubs during a

season in a given k team league, where $n < k$, (Dr. Andy Cooke).

(1)

Where n