The Importance of Sports

• Individuals, cities, and nations can define themselves in terms of sports
• Sports can be used to achieve diplomatic goals
• Sports have their own section in the newspaper
• The sports industry, however, is relatively small
1.1 Text Organization

• The major sections of the book use tools from three branches of economics

• Part 2 presents the industrial organization of sports
  – Industrial organization addresses issues of firm behavior
  – We will study how firms maximize profits
1.1 Text Organization (cont.)

• Part 3 presents the public finance of sports
  – Public finance examines what goods the government should provide and how it should finance them
• Part 4 covers the labor economics of sports
  – Labor economics analyzes employment and wages
1.2 Babe Ruth and Comparative Advantage

- We use basic economic concepts to explain the behavior of people, teams, and leagues
- Opportunity cost is a key concept: it is the value of the best forgone alternative
  - We need this concept for comparative advantage
Absolute Advantage

• Absolute advantage is the ability to produce a good or service more efficiently than anyone else
• Babe Ruth started with the Red Sox
  – He was the best pitcher the team had
  – He was the best hitter the team had
  – Therefore, Babe Ruth had an absolute advantage in both pitching and hitting
Comparative Advantage

- No player, not even Babe Ruth, can be used as both pitcher and hitter
- The team had to decide in what role Babe Ruth could be most useful
  - Where was he more dominant?
- A person has comparative advantage in an activity, compared to other persons, if his/her opportunity cost of that activity is lower than for other persons
Babe Ruth’s Comparative Advantage

- Babe Ruth had comparative advantage in hitting
- He was only a little better in pitching than someone else on the team
- He was much better at hitting than anyone else on the team
- The Red Sox used him as a hitter
Red Sox Benefit

- Babe Ruth was the Red Sox’ best pitcher in 1917 (See Table 1.1)
- He switched to rightfield in 1918
- Both Ruth and the Red Sox benefited
  - Red Sox gave up ~10 more runs in 1918 than in 1917 because the replacement pitcher, Dutch Leonard, was not as good
  - But they scored ~29 more runs because Ruth was better than Tilly Walker, whom he replaced
Applying Comparative Advantage

• Moving Ruth to the position where he had comparative advantage created more runs for the Red Sox
• Runs create wins, which is the object of the game
• In general, individuals and nations should develop and specialize in their comparative advantage