

# Baseball Economics 101

## Introduction:

As any baseball fan can tell you, the New York Yankees have won three of the last five World Series championships. The Yankees' is one of the high revenue teams—it has led many to question whether smaller market teams can compete in Major League Baseball (MLB). In fact, in 2004, the Yankees had revenues surpassing \$280 million, the most of any team in sports. The Yankees actual payroll this year was \$183 million. Steinbrenner is going to pay a shade over \$24 million in luxury tax and about \$57 million in revenue sharing. Those liabilities cut deeply into gross revenues and make affordability for free agents a consideration. Even for the richest baseball team on the planet.



Many baseball writers (who may or may not know very much about economics) have written that our national pastime may be threatened by the big market, high revenue teams like the Yankees (or the Los Angeles Dodgers, the Boston Red Sox or the Arizona Diamondbacks) and that smaller market teams (e.g., the Kansas City Royals or the Pittsburgh Pirates) cannot compete for the high salaried free agents necessary to win championships. In fact, some writers claim that many MLB teams are actually not profitable for the team owners.

Are these claims true? Are MLB teams losing money? Are MLB owners looking to dump unprofitable teams on unsuspecting investors? Are MLB players grossly overpaid? This lesson will help you answer these and other questions.

## Pre-Test:

Before beginning the lesson, please take the short [Pretest](#) to see what you already know about the economics of baseball. Print out your answers and save them to compare with your answers on the posttest.

## Activity 1: Record your answers on the answer sheet which follows.

### MLB Salaries and Wins and Losses

1. Locate the Excel worksheet in your handout folder called SALARIES.XLS.
2. Next, use the 2004 average payroll salaries of all 30 MLB teams to fill in the worksheet. This is called 2004 Average Salaries.doc.
3. Be certain to use the "**average team salary**" in the worksheet. Next, fill in the 2004 won-loss records for the 16 teams in the National League and the 14 teams in the American League.
4. Finally, enter the salary data and the team won-loss records into this Excel file.

Your Name \_\_\_\_\_

Date Submitted \_\_\_\_\_

## Answer Checklist for Baseball Economics 101

NOTE: Fill in all the information on the Excel Spreadsheet **BEFORE** filling out this worksheet.

1. Print out a copy of the completed worksheet in landscape orientation. The spreadsheet should have the team names, average salary and win record completely filled in. (Ask if you don't know how to do this.)

2. In 1991, the average MLB player's salary was \$1 million.

★ What is the average player's salary for 2004? Look in cell C41 for this answer. The formula is already included on the spreadsheet for you. \_\_\_\_\_

★ Does paying high salaries always translate into championships (or even winning seasons)? \_\_\_\_\_

★ How can you prove or disprove that? What is your proof as illustrated on the spreadsheet?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. Are the teams with the largest payrolls the most successful? \_\_\_\_\_

a. Please explain your reasoning by using the teams on the spreadsheet to explain.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

4. Do larger market teams (with the high revenues needed to pay high salaries) have an advantage over smaller market teams? Explain.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

5. Only two of the top seven teams in the American League had an average player salary lower than the MLB average. Which teams were these?

a. \_\_\_\_\_ b. \_\_\_\_\_

6. Only one of the bottom ten teams in the American League had an average player salary higher than the MLB average. Which team was this?

a. \_\_\_\_\_

7. Only three of the top eight teams in the National League had an average player salary lower than the MLB average. Which teams were these?

a. \_\_\_\_\_ b. \_\_\_\_\_ c. \_\_\_\_\_

8. Only one of the bottom twelve teams in the National League had an average player salary higher than the MLB average. Which team was this?

a. \_\_\_\_\_

9. What do these results seem to imply? \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

10. Which MLB player has the largest contract for salary which runs through 2009?

\_\_\_\_\_

a. Once you find this person, how did his team do this year? In your OWN opinion, Is he making too much or too little?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

11. You must submit the Excel spreadsheet—So print out a copy of your spreadsheet as part of the project AND you must place the Excel Spreadsheet in your “HAND IN” folder on the H: drive.

12. Attach a one paragraph summary of what you learned from this assignment as it relates to marketing Major League Baseball teams. You may use the answers above to help you to develop a paragraph. Each answer above (numbers 1-10) are worth 9 points. Question number 12 (the paragraph) is worth 10 points. Please DO NOT forget to write the summary paragraph and attach it. Ten points will be deducted for each day it is late EVEN if you are absent.