AN EVENT STUDY OF THE ECONOMIC IMPACT OF PROFESSIONAL SPORT TEAMS ON LOCAL INCOMES

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ABSTRACT

Many cities have tried to use expensive incentives such as a state-of-the-art stadiums or tax exemptions to persuade major professional sport teams to relocate to or remain in their area. These cities do so because they expect a professional sport team to enhance the local economy. In this paper we utilize an event study approach to examine the economic impact of a sport team on the local economy. The results indicate a negative impact of a sport team on local per capita income in both the short and long-run.

INTRODUCTION

Many cities have used expensive incentives such as a state-of-the-art stadiums or tax exemptions in an attempt to persuade major professional sport teams to relocate to or remain in their area. These cities do so because they expect a professional sport team to enhance the local economy (Barta, 2001; Bocanegra, 2000). Since tax revenues are used to pay for the incentives offered to these teams, it is reasonable to investigate the resulting net effect of the professional sports teams on the economic welfare of local taxpayers.

In this study we examine both the short-term and long-term economic impact of professional sport teams at the metropolitan statistical area (MSA) level by testing to determine if the local income increases *unexpectedly* as a result of an expansion or relocation of a professional sport team. We evaluate both per capita income and its growth rate using the event study model, and consider the four major leagues: Major League Baseball (MLB), the National Basketball Association (NBA), the National Football League (NFL), and the National Hockey League (NHL).

The event study framework has been widely employed in finance problems to examine an unexpected return on investment as a result of the occurrence of an event. The event can be anything that might affect the return on investment including (1) firm-specific events, such as announcement of a stock split, takeover bid, or bankruptcy; or (2) market-wide events, such as announcement of a tax-cut, a change in the unemployment rate or interest rate, or an international trade agreement. In this approach, the market returns are regressed against the individual's returns using data before the event date. The parameters are then used to compute the expected individual's return after the event date. The relationship between error terms and firms' characteristics can also be examined further. Extensive details regarding event study methodology can be found in Henderson (1990). Through this approach, we incorporate important factors that previous studies fail to consider simultaneously: causality, overall economy, specific characteristics of local areas, and events' ages.

BACKGROUND

Researchers have studied the impact of sports from a variety of perspectives. Coates and Humphreys (2001) found no significant economic impact of strikes and lockouts of the professional sport leagues in the U.S. between 1969-1996. Many other studies such as Bird (1982), Sutherland and Haworth (1986), and Szymanski (2001) examined sport industries outside the United States with a primary focus on those in the United Kingdom. However, a limited number of studies investigate the economic impact of a professional sport team on the local economy. Baade (1994), Baade and Dye (1988, 1990), Coates and