Economic Scene

Wait Till Next Year, but Lock In the Ticket Price Now

by Alan B. Krueger

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JOE KOCOTT and Ian McKinley are both die-hard Pittsburgh Steelers fans. In the past week, Mr. McKinley urgently searched eBay, Craigslist, StubHub and other sources for a ticket to Super Bowl XL, eventually buying one for $2,500, while Mr. Kocott secured tickets for himself, his wife and seven children, and nine others in early January by paying an average of $350 for 18 futures contracts that promised him tickets if the Steelers made it to the championship game.

Futures markets have existed for decades for commodities like pork bellies and oil, whose prices fluctuate over time. The advantage of a futures market is that it allows the buyer and seller to lock in a price, and in that way reduce uncertainty.

There is great uncertainty surrounding sporting events like the Super Bowl, including whether a fan's team will make it to the game and the price of tickets on the secondary market. Stephen K. Happel and Marianne M. Jennings of Arizona State University proposed a futures market for tickets to major events to reduce risk in 2002. Their idea is finally coming to fruition.

Three Internet companies — Yoonew.com, TheTicketReserve.com and

SuperbowlOption.com — sold futures-like contracts for this year's Super Bowl. Mr. Kocott said he investigated various options after seeing Yoonew advertise at a Monday Night Football game he attended. He purchased 10 contracts from Yoonew after the Steelers' wild-card playoff game for $185 each and 8 more for $547 apiece a week later.

The contracts worked as follows: If the Steelers made it to the Super Bowl, he would receive a ticket to the game, and if they did not he would lose his payments. Mr. Kocott said his biggest concern was whether he could trust a Web site to hold up its end of the bargain.

Yoonew, a company based in Baltimore, was founded by two students from the Sloan School of Management at the Massachusetts Institute of Technology, Gerry Wilson and Hagos Mehreteab, in 2004. Although Yoonew does not possess tickets to games initially, it purchases them with the proceeds from futures contracts and reserve funds, if necessary.

The company nearly failed after the Final Four college basketball tournament last year amid soaring ticket prices caused by increased demand from universities that qualified for the Final Four that were near the site of the games, and decreased supply because some coaches were caught scalping tickets.

Realizing that his company's future depended on its ability to deliver the promised tickets, Mr. Wilson liquidated his 401(k) to spend $35,000 on tickets. An investor has since poured $2 million into the start-up, shoring up its finances for now.

Mr. Wilson said that Yoonew's futures contracts do not run afoul of antiscalping laws because they are contracts for tickets, not tickets themselves, and because the contract price is typically below the face value of the ticket ($400 or $600 for this year's Super Bowl).

The relatively low price of futures contracts gives moderate-income fans a chance to attend marquee sporting events, which is a welcome counterbalance to the many corporations and lobbyists that often snap up tickets.

Last season, Yoonew posted a futures price for each team daily. Mr. Wilson said the price depended on the probability of a team's reaching the Super Bowl, the market value of tickets, stadium capacity and other factors.

Yoonew plans soon to provide an online trading platform, like Ameritrade, where people can buy and sell futures tickets at market-determined prices.

Analyzing data from last season, I found that the weekly gambling odds from SportingbetUSA explained 96 percent of the variability in Yoonew's futures prices, implying that futures can mainly hedge the uncertainty of a purchaser's team making it to the Super Bowl.

If fans are risk-averse, then ticket futures add economic value. To see this, suppose that there is a 10 percent chance of a fan's team reaching the Super Bowl and that a futures contract costs $250 while a ticket could be purchased the week of the game for $2,500. At these terms, a risk-loving fan intent on going to the Super Bowl if his team plays would wait to buy a ticket for $2,500, and a risk-averse fan would buy a futures contract for $250.

Indeed, a risk-averse fan would be willing to pay more than $250 for a futures contract in this situation. Like an insurance policy, ticket futures sell at a premium over their expected value because they help risk-averse buyers hedge against uncertainty.

To gauge the size of the premium, note that a fan could guarantee a ticket to the Super Bowl by buying a futures contract for every team in a conference; one is bound to make it. Call this expenditure the sure-thing price of a ticket. If fans were risk-neutral, the sure-thing price would equal the price that tickets are expected to cost at game time — say $2,500 this year. The excess of the sure-thing price over $2,500 gives a rough indication of the market valuation of insuring against risk.

The futures appear to have been priced reasonably. The premium for a sure-thing ticket from Yoonew ranged from about 35 percent to 60 percent during the season, not far from the markup in some lines of insurance. Interestingly, the premium fell sharply as the playoffs advanced, perhaps because fans overestimated their teams' chances during the season.

The emerging market for futures tickets remains thin, however, as indicated by the large gap between buy and sell prices for the Final Four and next year's Super Bowl posted on TheTicketReserve.com.

To survive, the futures market will require an influx of customers.

Mr. Kocott, who is giving some of his 18 Super Bowl XL tickets to the Make-A-Wish Foundation, will do his part to spread the word. He called Yoonew's ticket futures "long overdue" and "one of the most ingenious ideas I have ever seen." He expects to buy futures for the Final Four and next year's Super Bowl.

When asked if he would consider buying a futures contract next year, Mr. McKinley, who scrambled to buy a Super Bowl ticket this week, said, "Perhaps, after verifying that the company can actually get the seats that would be part of the futures contract."

Establishing a reputation for dependability is a prerequisite for a futures market in tickets to succeed. The sports leagues could help by distributing some tickets to fans through the futures market.

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