ECONOMIC SCENE

Seven lessons about Super Bowl ticket prices.

By ALAN B. KRUEGER

Published: February 1, 2001

YOU can learn a lot about economics just by studying the price of Super Bowl tickets. Here is what I learned from attending Super Bowl XXXV with my father, Norman, and conducting a small survey with the help of four interviewers.

LESSON 1 -- If the price is set artificially low, there will be excess demand. The face value listed on most Super Bowl tickets this year was $325. This price was much too low to balance demand with the limited supply.

The National Football League held a lottery for 500 pairs of tickets and was flooded with 36,000 applicants -- the odds of being admitted to Princeton are better. On game day, hundreds of frustrated fans displayed "Ticket Wanted" signs and offered $1,500 and up for tickets outside the stadium.

LESSON 2 -- If the price is set artificially low, a secondary market will develop. The secondary market in this case involves scalpers, licensed ticket brokers and online auctions. About half the states regulate the resale of sports tickets in some way. Still, tickets are often resold. A week before the Super Bowl, tickets on Yahoo Auctions traded for $1,500 to $3,500.

To economists, scalping creates value, as Steven Happel and Marianne Jennings of Arizona State eloquently argue in the Cato Journal. Although people sometimes make mistakes, those who voluntarily buy and sell tickets do so only because they feel they benefit from the transaction. Scalpers facilitate such trades. Fans seem to agree: two-thirds of the 316 fans we surveyed said ticket scalping should be legal.

LESSON 3 -- Ticket prices in the secondary market vary widely. One fan we spoke to paid a scalper $1,000 while another paid $3,500 for tickets in the same section of the upper deck. Even tickets in Web auctions sold for varying prices on the same day.

This phenomenon has been observed in many auctions. For example, Orley Ashenfelter, a Princeton economist, found that identical lots of wine sell for lower prices in later rounds of an auction.

At the Super Bowl, however, the supply of tickets dried up a few days before kickoff. The fear of this happening might explain why prices often decline in auctions: those who want something the most buy early in case it will not be available later, and pay a premium to avoid the risk.

LESSON 4 -- The N.F.L. could increase short-term profit by charging more, but probably at the expense of long-term profit. In view of the excess demand, many economists wonder why the league does not charge more for tickets. Although the face value of Super Bowl tickets has increased -- almost quadrupling since 1987, adjusted for inflation -- tickets on the secondary market still sell for $1,000 to $4,000 more than the list price. By charging a market price, the N.F.L. could increase revenue by perhaps $150 million.

Ticket prices are set by the N.F.L. commissioner's office and a group of team owners. The league keeps 25 percent of tickets, which it distributes to the media, advertisers and others; the rest go to the teams and host city to distribute, usually by lottery to season-ticket holders.
Why doesn't the N.F.L. charge more? Greg Aiello, the league's vice president for public relations, said it tries to set a "fair, reasonable price" to maintain an "ongoing relationship with fans and business associates." The N.F.L. does not want only rich aristocrats to attend the Super Bowl.

All this poses a puzzle for conventional economics. Wouldn't it be better for the N.F.L. to sell tickets at market value and give season-ticket holders and business associates some of the cash, which they could spend on whatever they wanted? Moreover, if a basic economic principle known as the Coase Theorem held, allocating tickets in a lottery at a below-market price would not determine who is in the stands -- those who want tickets the most and have the wherewithal would buy them from lottery winners. And why should the N.F.L. care who is in the stands, anyway?

But the N.F.L. knows what it is doing. In our survey, 28 percent of the fans attending the game received tickets in a lottery; 11 percent received them from the N.F.L.; and 40 percent received tickets as gifts from a company or friend. Only 20 percent paid more than face value. George Akerlof, an economist at the University of California at Berkeley, has argued that many economic transactions involve "gift exchanges," and the Super Bowl is no exception.

Nearly everyone we interviewed thought it would not "be fair for the N.F.L. to raise the face value to $1,500 if that is still less than the amount most people are willing to pay for tickets." Sixty percent of the N.F.L.'s $4 billion of revenue comes from television, so image is (almost) everything.

LESSON 5 -- People are willing to keep tickets they win in a lottery, even though they would not have bought them at a market price. We asked fans who won the right to buy tickets for $325 in a lottery whether they would have been willing to pay $3,000 a ticket had they lost in the lottery, and whether they would be willing to sell their ticket for $3,000. Ninety-three percent answered no to both questions.

Richard Thaler, an economist at the University of Chicago, calls this phenomenon an "endowment effect" -- the value people place on a good increases once it is added to their possessions.

But the profile does not always fit. Before kickoff, I asked Karen McClearn, an exuberant Ravens season-ticket holder from Baltimore, whether she would have sold the tickets she and her husband obtained in the lottery if someone had offered her $4,000 apiece. She said no. She added that she might have been willing to pay up to $5,000 if she had not been selected in the lottery. When the Ravens took a 17-0 lead -- and she led the crowd in the Raven's bird dance -- however, she volunteered that her ticket was now worth much more than $5,000.

LESSON 6 -- Although football fans are subject to biases in judgment (like everyone else), they still take account of tax rules. Some of those auctioning tickets on eBay and Yahoo promised to donate the proceeds to charity, which makes the purchase price above the face value tax-deductible for the buyer. In these cases, tickets sold for a premium.

For example, two seats auctioned for the Boomer Esiason Foundation to fight cystic fibrosis sold for $7,300, which is an after-tax price of $4,667 at the top 39.6 percent marginal rate -- close to the typical price for a pair of tickets in the secondary market.

LESSON 7 -- Even after the game, Super Bowl tickets are valuable. Several people offered $20 for my ticket stub as we left the stadium. I could not sell. I paid too much to a licensed broker to part with it. Besides, I planned to give the stub to my children as a gift.