Another look at anti-scalping laws: Theory and evidence

Craig A. Depken, II

Abstract This paper investigates the impact of anti-scalping laws on the face value of tickets in professional football and baseball. Previous theoretical models have suggested that scalpers might cause an increase in prices at the ticket window because they represent an increase in demand. This paper provides a model in which ticket scalping has an ambiguous impact on ticket window prices, making the actual impact an empirical question. Empirical analysis suggest that in cities with anti-scalping laws average per-game season ticket prices are approximately $2 greater in baseball and $10 greater in football. Anti-scalping laws actually increase team revenues, as the laws have no adverse effect on attendance. Thus, event promoters might have sufficient pecuniary incentive to tacitly or explicitly support anti-scalping legislation.

Keywords Ticket pricing · Professional sports · Secondary markets

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1. Introduction

Most economists would agree that government intervention in the market process should pass some efficiency criteria. Unfortunately, it is often unclear whether the criteria are met or even considered before government intervention is implemented. One form of intervention economists have found befuddling is the anti-scalping law, which aims to limit the resale of tickets to sporting and entertainment events lest a secondary market lead to high prices and perhaps an “unfair” distribution of a limited number of tickets to a popular event. In 2002, approximately $13.6 billion was spent on professional and amateur spectator sporting events (Census Bureau, 2005, Table 1229), and 28 states and numerous municipalities had laws banning the resale of tickets or limiting the profit that can be earned in a resale (National
Conference of State Legislatures, 2002). Given the scope of the professional sports market and the increased legislative efforts to limit or restrict secondary markets for tickets, anti-scalping laws warrant both theoretical and empirical analysis.

The unique characteristics of tickets for entertainment events, specifically their fixed supply and uncertain demand, have motivated economists to investigate the conditions under which a profit-maximizing event promoter will price tickets below what seems to be market clearing. If prices are set below market clearing levels, arbitrage possibilities often create a secondary market for tickets in which prices might be considerably higher than the face value of the ticket. These secondary markets are one target of anti-scalping laws, but just as often anti-scalping laws are heralded as promising lower ticket prices in the primary market, i.e., at the ticket window.

This paper contributes a theoretical model of the impact of anti-scalping laws on the face value of tickets, following in spirit the model of Courty (2003). Courty’s model suggests that scalpers cater to “executive fans” who have highly uncertain demand, which is not affected by the presence of anti-scalping laws. Therefore, such laws might not have an impact on the face value of tickets to an event. The model developed herein assumes that speculators have a low residual value of the ticket; the speculator values the high quality ticket only in as much as it is profitable to resell on the secondary market, assumed to occur with a probability less than one. Because the expected value of a ticket on the secondary market might be lower than the willingness to pay by “true fans,” event promoters might find it revenue enhancing to price tickets such that both speculators and true fans purchase tickets. However, if scalping is effectively restricted, event promoters might find it revenue enhancing to raise ticket prices. If this is the case, event promoters might have pecuniary reasons to explicitly or implicitly support anti-scalping legislation.

The implications of the model are tested in Major League Baseball (MLB) and the National Football League (NFL). These two sports share many host-cities and the variation of anti-scalping legislation over the sample period allows for possibly different effects in these two leagues given the significant differences in the number of home games and average per-game attendance. The empirical findings prove interesting. Contrary to the cross-sectional evidence found by Williams (1994), it is shown that anti-scalping legislation tends to correlate with higher ticket prices in these two sports. The results suggest that the change in prices that correlates with anti-scalping laws might yield $2 million per year in additional revenue to teams in football and baseball. Therefore, team officials may have sufficient monetary incentive to tacitly or explicitly support anti-scalping legislation in their city.

2. Ticket scalping legislation: The existing literature

The literature investigating anti-scalping laws is primarily theoretical in nature. The earliest theoretical models assume that speculators increase the demand for tickets at the window, and therefore if anti-scalping laws are fully effective they reduce the demand for tickets at the window and therefore should cause a reduction in ticket prices, ceteris paribus (e.g., Barnicke, 1973; Williams, 1994). Moreover, limiting access to tickets to only those who plan to attend the event, rather than resell to a higher bidder, makes the distribution of tickets “more fair” (Spitzer, 1999). The intuition offered in support of this claim is that the existence of a secondary market motivates speculators or ticket brokers to purchase tickets for the event and seek to resell them to other, perhaps more wealthy, individuals, thereby limiting access to the event to an elite. Ticket brokers therefore compete with traditional fans for tickets, artificially enhancing demand for the event and increasing prices.