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Sports fans' demand for "suspense" drives design of reward schemes for players

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[William Chan](#) [Pascal Courty](#) [Hao Li](#)

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Sports contests produce a vast wealth of statistics and data describing players' performance that fans love to analyse. So why are the contests themselves decided by a very crude measure – win or lose? This column explains that the rank order tournament reward scheme provides the incentives that create the sports drama fans crave – contestants giving their best effort when the uncertain outcome is up for grabs.

Sport contestants can earn substantial financial prizes. Total prize money at Wimbledon is more than £10 million. The Professional Golf Association distributes approximately \$250 million in prize money across 48 events in the PGA tour. Even in less "professional" sports, pecuniary rewards play an important role. Prize money is also highly correlated with sponsorship deals.

A unique feature of sport incentives is that prize money is typically allocated on the basis of who wins and who loses – a tournament format of rewards (Lazear and Rosen 1981). More informative measures of performance, which assess how well contestants do relative to their rivals (such as differences in scores), rarely matter, even though they are readily available. Why are win-lose rank order incentives typically used to reward performance in sport?

One way to address this question is to assume that the designer of a sport's event wants to maximise total entertainment value. How should the designer reward contestants to give them an incentive to behave in a way that maximises public enjoyment? In Chan, Courty, and Hao (2009), we argue that a sports event is an "experience good" and the spectators' experience depends on the dynamics of the game. Contestants can change strategies as the game progress – how much effort they exert, how much risk they take, and so on. For example, team effort tends to drop once a margin of victory is established as the top players are replaced by substitutes ("bench players"). There is also much statistical evidence that effort matters in professional golf tournaments, amongst jockeys, and in many other individual sports.

Our research analyses spectators' demand for drama and investigates whether such demand could explain the use of rank order schemes in sports. We hypothesise that spectators enjoy "suspense" in a game – rather than caring about players' efforts per se, spectators derive greater entertainment value from contestants' efforts when the match is on the line. This definition of suspense is different from a pure "taste for uncertainty" or a pure "taste for effort". Suspense combines these two components, both of which have been shown to influence the demand for sport events, by assuming a complementary relationship. Spectators at sports events get the most entertainment from players' efforts when the game is close and the outcome still uncertain.

It is this demand for "suspense" that drives the typical allocation of prize money – on the basis of

who wins and who loses, rather than how well contestants perform relative to their rivals. When spectators demand suspense, a rank order scheme provides incentives for continuing efforts exactly when such efforts matter to spectators. The more spectators demand suspense, the better rank order schemes perform relative to other incentive schemes.

The concept of demand for suspense is consistent with several features of sports competition. In particular, suspense is consistent with the “uncertainty of outcome” hypothesis, which states that spectators are willing to pay more for more uncertain games, as well as the observation that sports leagues try to maintain “competitive balance” by minimising the disparity between the strong and weak teams. By analysing a sports contest as a sequence of effort choices by the contestants, the research also offers insights into how the demand for a sport events – measured for example by viewership ratings – changes in a systematic way as the contest unfolds.

These results suggest that a taste for suspense helps explain the observed prevalence of rank order schemes in sports. But other explanations are possible; indeed, they can be complementary with this explanation. One alternative is that spectators simply derive greater enjoyment from watching rank order contests, presumably because the payoff discontinuity increases the stakes that contestants face and creates the drama that somehow makes the games more appealing. Rank order schemes may also be prevalent because they are easy to implement and are less subject to collusion.

References

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