Mandatory rematch clauses in boxing contracts*

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Abstract

Rematches abound in boxing. Usually, these rematches are not certain but there is some non-zero probability that they will occur. We show that a higher probability of rematch will induce higher aggregate efforts, if the boxers are almost equally-matched. Otherwise, a lower probability of a rematch induces higher aggregate efforts. If the difference between the boxers’ abilities is sufficiently small, then a mandatory rematch clause (i.e., a rematch clause which stipulates that the winner of the contest is obliged to give the loser a rematch) results in higher aggregate effort compared to aggregate effort when the probability of a rematch depends on effort. Indeed, we provide a justification for the practice of offering mandatory rematch clauses to elite boxers.

Keywords: boxing, contests, current effort, mandatory rematch clause, probability of rematch.

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1. Introduction

There is a wide literature on contests.\(^1\) Election campaigns, R & D races, competition for monopolies, litigation, wars, and sports are all examples of contests.

Boxing is an obvious example of a contest. The sport of boxing is a very lucrative industry. Elite boxers can earn as high as $15 million in a fight. One of the leading boxer promoters, Don King, is worth more than $500 million. Some boxing fans pay as high as $2500 to watch a fight. Indeed, one of the most popular personalities in the world, Muhammed Ali, was a boxer. Given the significance of this sport, it is surprising that economists have not written much on the subject. To the best of our knowledge, the only paper which examines boxing using standard economic analysis is Tenorio (2000).\(^2\)

This paper is about rematches in boxing.\(^3\) A rematch occurs if the boxers fought each other in a previous fight or fights. Usually, these rematches are not certain but there is some non-zero probability that they will occur. Does a lower probability of rematch induce higher or lower aggregate efforts in the current fight? Could aggregate efforts be higher if the probability of a rematch is independent of effort compared to the case where the probability of rematch is contingent on effort? This paper provides answers to these questions. We discuss the incentive effects of mandatory rematch clauses in boxing contracts. Mandatory rematch clauses stipulate that the winner of the

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\(^2\) Our search in EconLit revealed Tenorio (2000) as the only paper.

current fight is obliged to give the loser a rematch. Hence the probability of a rematch is independent of effort in the current fight. Surprisingly, we find that, under certain conditions, a mandatory rematch clause will result in a higher aggregate effort relative to aggregate effort when the probability of a rematch is contingent on effort. We provide a justification for the practice of offering mandatory rematch clauses to elite boxers.

We show that a higher probability of rematch will induce higher aggregate efforts, if the boxers are almost equally-matched. Otherwise, a lower probability of a rematch induces higher aggregate efforts. If the difference between the boxers’ abilities is sufficiently small, then a mandatory rematch clause (i.e., a rematch clause which stipulates that the winner of the contest is obliged to give the loser a rematch) results in higher aggregate effort compared to aggregate effort when the probability of a rematch depends on effort.

In the next two sections, we present models to examine the relative incentive effects of mandatory and probabilistic rematch clauses. In section 4, we give concluding remarks.

2. Boxing contests and rematches

A key feature of boxing contracts is that a boxer’s purse or payment is guaranteed regardless of the effort he puts into the fight. His purse in the current fight is not contingent on effort in the fight. Tenorio (2000) identifies conditions under which such a reward scheme induces sub-optimal efforts by boxers. However, boxers may exert sufficiently high efforts because performance in today’s fight influences rewards
in future fights. In principle, a boxer could exert a sufficiently high effort in a current
contest even if the purse is very small. This is because his future payments are
positively influenced by his past performance.

Consider two risk-neutral boxers (1 and 2) engaged in a bout in period 1. In this
period, the boxers are guaranteed fixed prizes. Because these prizes are guaranteed, we
ignore them because they will not affect the effort decisions of the boxers. However, if
there is a rematch their purses will be a function of aggregate efforts, \( E = e_1 + e_2 \). A
promoter will be able to offer a purse increasing in efforts in the previous fight because
demand by boxing fans for a rematch is expected to be positively related to effort in the
previous fight. Suppose \( V_1(E) \) is boxer 1’s purse in a rematch, given that he won the
fight in period 1.\(^4\) If he won the fight, assume that his purse is \( \beta V_1(E) \) if he fights a
different boxer in period 2, where \( 0 \leq \beta < 1 \). His purse is \( \gamma V_1(E) \) in a rematch if he lost
in period 1, where \( \beta \leq \gamma < 1 \). The same assumptions apply to boxer 2. Aggregate effort
is like a public good which positively affects the boxers’ payoffs in their next fights,
whether or not they fight in a rematch. The assumption of \( \gamma \geq \beta \) implies that either
boxer will not reject a rematch.

We assume that \( V_i(E) \) is increasing in \( E \) and strictly concave. Assume that \( V_1(E) \geq V_2(E) \) for all \( E \), \( V_1(0) = 0 \), and \( V_2(0) = 0 \). Thus, for a given aggregate effort, boxer 1
may be paid more than boxer 2. This might be due to the fact that boxer 1 is a very
popular boxer or is perceived to be of a higher ability. Indeed, a boxer’s popularity is a

\(^4\) A boxer’s purse may also be a function of relative effort, say \( V_1(e_1 - e_2) \) instead of aggregate effort.
Boxing fans may prefer a fight in which the difference in efforts is small, even if aggregate effort is low
compared to a fight in which aggregate effort is high and the difference in effort is also high (a lopsided
fight). However, the reverse ordering is also possible. Surely, there is a trade-off between relative effort
and aggregate effort. For simplicity, we assume that boxing fans care about only aggregate effort.
key determinant of his purse. For example, a popular challenger could be paid more than a champion. In the March 2003 heavyweight fight between John Ruiz (the champion) and Roy Jones, Jr (the challenger), Jones was paid more than Ruiz.

In period 2 (when the rematch takes place) the boxers’ purses are guaranteed regardless of the outcome of the fight. Hence their effort in a rematch (in period 2) will not be influenced by the purse in period 2. This is influenced by payments in period 3, which will be a function of period 2 efforts, and so on. In period 1, we assume that each boxer’s effort is influenced by payment in period 2 but not by payment in period 3 and subsequent periods. This is because effort in period 1 has no effect on payment in period 3 and subsequent periods. That is, a boxer’s current purse is only influenced by his most recent past performance. This is a reasonable approximation of what happens in the real world and is consistent with Tenorio’s (2000) observation that boxing fans display “short-term” memory. However, this assumption is not crucial to our analysis. We could instead define \( V_i(E) \) as the discounted lifetime payoff of the i-th boxer, given that he won the fight in the current period and was engaged in a rematch in period 2.

The probability that boxer 1 wins the contest is \( p_1 = \frac{e_1}{e_1 + e_2} \) and the probability that boxer 2 wins is \( p_2 = \frac{e_2}{e_1 + e_2} \). This probability function is widely used in the literature on contests. Let \( 0 < \theta = \theta(E) \leq 1 \) be the probability of a rematch. If \( \theta = 1 \), then a rematch is mandatory. For now, assume that \( \theta \) is exogenous (i.e., independent of \( E \)).

Given our assumptions, the boxers’ expected payoffs are

\[
\pi_i = p_1[\theta V_i(E) + (1 - \theta)\beta V_i(E)] + (1 - p_1)[\theta\gamma V_i(E) + (1 - \theta)\beta V_i(E)] - e_i
\]

(1)
\[\pi_2 = p_2[\theta V_2(E) + (1 - \theta)\beta V_2(E)] + (1 - p_2)[\theta \gamma V_2(E) + (1 - \theta)\beta V_2(E)] - e_2 \quad (2)\]

These payoffs can be re-written as

\[\pi_1 = p_1 \hat{\theta} V_1(E) + \kappa V_1(E) - e_1 \quad (1a)\]

and

\[\pi_2 = p_2 \hat{\theta} V_2(E) + \kappa V_2(E) - e_2 \quad (2a)\]

where \(\hat{\theta} \equiv \theta(1 - \gamma)\) and \(\kappa \equiv \theta\gamma + (1 - \theta)\beta\).

It is important to note that \(\hat{V}_1 \equiv \hat{\theta} V_1(E)\) and \(\hat{V}_2 \equiv \hat{\theta} V_2(E)\) are the boxers' valuations of winning the fight in period 1. This contest falls in the general class of contests like Amegashie (1999, 2001), Chung (1996), and Kaplan et al. (2002) where the contestants' valuations are functions of their efforts.

A Nash equilibrium requires the simultaneous solution of the following equations: \(\partial \pi_1/\partial e_1 = 0\) and \(\partial \pi_2/\partial e_2 = 0\) (i.e., interior solution). This gives

\[\hat{\theta} e_2 V_1(E)/E^2 + \hat{\theta} p_1 V'_1(E)/E + \kappa V'_1(E) - 1 = 0 \quad (3)\]

and

\[\hat{\theta} e_1 V_2(E)/E^2 + \hat{\theta} p_2 V'_2(E)/E + \kappa V'_2(E) - 1 = 0 \quad (4)\]

Suppose \(V_1(E) = V_2(E) + \varepsilon\), where \(\varepsilon\) is a constant. Note that \(\varepsilon\) is the difference between the boxers' purses. We shall refer to \(\varepsilon\) as the difference in abilities. In what follows, we shall perform comparative statics by varying \(\varepsilon\). To ensure that \(V_1(E)\) is positive we restrict the analysis to \(\varepsilon \geq 0\). We do this without any loss of generality.

Adding equations (3) and (4) gives

\[\theta \Omega + \varepsilon \theta e_2/E^2 + 2\kappa V'_2(E) + \varepsilon \kappa - 2 = 0 \quad (5)\]

where \(\Omega \equiv V_2(E)/E + V'_2(E) > 0\).
Taking the derivative of (5) with respect to \( \theta \) gives

\[
\Omega + \theta \Delta \frac{\partial E}{\partial \theta} + \varepsilon \theta \left[ \frac{1}{E^2} \frac{\partial e_2}{\partial \theta} - \frac{2e_2}{E^3} \left( \frac{\partial e_1}{\partial \theta} + \frac{\partial e_2}{\partial \theta} \right) \right] + 2\kappa V_2^*(E) \frac{\partial E}{\partial \theta} + (\gamma - \beta)\varepsilon = 0 .
\]

(6)

where \( \Delta \equiv V_2^*(E) + V_2'(E)/E - V_2(E)/E^2 \). Note that \( \Delta < 0 \) given that \( V_2(E) \) is strictly concave and \( V_2(0) = 0 \). Without any loss of generality, we assume that \( \gamma = \beta \).

We can rewrite (6) as

\[
\Omega + \theta \Delta \frac{\partial E}{\partial \theta} + \frac{\theta \varepsilon}{E^2} \left( 1 - 2p_2 \right) \frac{\partial E}{\partial \theta} - 1 \right) + 2\kappa V_2^*(E) \frac{\partial E}{\partial \theta} = 0
\]

(6a)

This gives

\[
\frac{\partial E}{\partial \theta} = \frac{\theta \varepsilon E - \Omega E^3}{\theta[\Delta E^3 - (e_1 - e_2)\varepsilon] + 2\kappa E^3 V_2^*(E)}
\]

(7)

As it is the case in contests, the contestant with the higher valuation will exert a higher effort. Therefore, in equilibrium, \( e_1 \geq e_2 \), given that \( V_1(E) \geq V_2(E) \) for all \( E \).

From (7), it is obvious that \( \partial E / \partial \theta > 0 \) if \( \varepsilon = 0 \), given that \( \Delta < 0 \) (i.e., \( V_2(E) \) is strictly concave). Indeed, \( \partial E / \partial \theta > 0 \), if \( \varepsilon \) is sufficiently close to zero. Given \( \Delta < 0 \), the numerator and denominator will both be negative, if \( \varepsilon \) is sufficiently close to zero. This means that there exists an interval \( \varepsilon \in [0, \bar{\varepsilon}] \), where \( \partial E / \partial \theta > 0 \). For \( \varepsilon > \bar{\varepsilon} \), \( \partial E / \partial \theta < 0 \).

We are unable to establish this latter result analytically. Instead, we do so numerically. For example, by setting \( \theta = 0.8 \), \( V_2(E) = E^{0.5} \), \( \gamma = \beta = 0 \), solving for the equilibrium

\footnote{This assumption (i.e., \( \gamma = \beta = 0 \)) is made solely for computational convenience. The sign of the derivative in (7) does not hinge on it, except that the value of \( \bar{\varepsilon} > 0 \) will be different for different values of \( \gamma \) and \( \beta \).}
effort levels, and evaluating the derivative in (7), we find that $\varepsilon \approx 0.63$. This gives the following proposition:

**Proposition 1:** If the difference in the abilities of two boxers is sufficiently small, then a higher probability of a rematch will result in greater aggregate efforts in the current fight than a lower probability of a rematch. The converse result holds, if the difference in abilities is sufficiently large.

The intuition for this result can be seen by noting that the variance of valuations is $\sigma_v^2 = 0.25(\theta \varepsilon)^2$. Note that $\hat{\theta} = \theta$, given $\gamma = 0$. An increase in $\theta$ increases the valuations of the contestants (see equations (1a) and (2a)). Ceteris paribus, this should increase their effort in the contest (call this the valuation effect). However, the increase in $\theta$ also increases the variance of the valuations. This makes the playing field less equal. It is a well-known result in contests, that ceteris paribus, higher asymmetries among contestants reduces aggregate efforts (call this the inequality effect). This result has been found by Che and Gale (1998), Hillman and Riley (1989), Katz and Tokatlidu (1996), and Nti (1999). Note that $\frac{\partial \sigma_v^2}{\partial \theta} = 0.50\varepsilon^2$. Hence the increase in the variance as a result of an increase in $\theta$ is bigger, the bigger is $\varepsilon$. If $\varepsilon$ is sufficiently small, then the valuation effect dominates the inequality effect, resulting in an increase in aggregate

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6We also check that the contestants’ payoffs are positive and second-order conditions hold.

7 For a given $E$, the variance of these valuations is computed as $\sigma_v^2 = 0.5\left[(\hat{v}_1 - \bar{v})^2 + (\hat{v}_2 - \bar{v})^2\right]$, where $\bar{v} = (\hat{v}_1 + \hat{v}_2)/2$. 
efforts, if the probability of a rematch increases. Conversely, a lower probability of remarriage will increase aggregate efforts, if \( \varepsilon \) is sufficiently large.

An implication of proposition 1 is that aggregate efforts will increase if a mandatory rematch clause (i.e., \( \theta = 1 \)) is offered to both boxers, given that the difference in the abilities of the boxers is sufficiently small. As Rosen (1986) shows, contestants at the final stages of sequential-elimination contests tend to be those with high-ability and small variances in abilities. Since boxers at the top (e.g., champions and ranked boxers in the top ten) are those who have climbed very high in the elimination contest, there must be very small differences in abilities between them. Hence mandatory rematch clauses in boxing contracts are likely to dominate probabilistic rematch clauses in fights involving elite boxers. Indeed, mandatory rematch clauses are only offered to elite boxers.

Unless both boxers have a lot of leverage and clout, only one boxer (i.e., the champion) is usually entitled to a mandatory rematch, if he loses. If the other boxer (i.e., the challenger) loses, he does not get a mandatory rematch. But the champion, if he wins, has the option of giving the loser a rematch. The champion will give the challenger a rematch, if he does not have better alternatives (i.e., better lucrative fights with other opponents). If this is the case, then \( \theta = 1 \) even if only the champion has a mandatory rematch clause. Boxing champions usually demand mandatory rematch clauses in their contracts in order to have a second chance to reclaim their title, if they lose it. This is designed to minimize the risk of not being champions. In addition to this “insurance” motive, we have shown that mandatory rematch clauses may also have the added benefit of boosting aggregate efforts in the current contest.
2.1 Endogenous rematch probability

In this section, we consider a contest where the probability of a rematch depends on the efforts of the boxers. In particular, we assume that \( \theta = \theta(E) = E/(E + \alpha) \). If \( \alpha = 0 \), then a rematch is mandatory for both boxers. If \( \alpha > 0 \), then a rematch is not mandatory. Given \( E \), a lower \( \alpha \) implies a higher probability of rematch. We have specified the probability of rematch such that the higher is aggregate effort, the higher is the probability of a rematch. This is an effect which might make a probabilistic rematch clause preferable to a mandatory rematch clause. Since the probability of a rematch is contingent on effort, this is expected to induce the boxers to exert greater efforts in order to increase the probability of a rematch. We shall show, however, that a mandatory rematch clause might still dominate a probabilistic rematch clause.

For analytical simplicity, assume that \( V_1 \) and \( V_2 \) are independent of \( E \). This assumption allows us to focus on the effect of making the probability of a rematch contingent on effort. As in the previous section, a boxer gets \( V_1 \) or \( V_2 \) in a rematch if he won the previous fight. Note that the model in this section is identical to one in the previous expect that we have changed the rematch probability function and made the valuations independent of \( E \). Without any loss of generality but solely for analytical simplicity, we set \( \beta = \gamma = 0 \) as in the previous section. None of these simplifications affect our results. Our results hinge on the two opposing effects identified in the previous section: the valuation effect and the inequality effect.

Boxer 1 chooses \( e_1 \) to maximize

\[
U_1 = p_1 \theta(E)V_1 - e_1
\]
and boxer 2 chooses \( e_2 \) to maximize

\[
U_2 = p_2 \theta(E)V_2 - e_2
\]  

(9)

A Nash equilibrium requires the simultaneous solution of the following equations: \( \partial U_1 / \partial e_1 = 0 \) and \( \partial U_2 / \partial e_2 = 0 \) (i.e., interior solution). This gives

\[
\theta e_2 V_1/E^2 + \alpha e_1 V_1/[E(E + \alpha)^2] - 1 = 0 \]  

(10)

and

\[
\theta e_1 V_2/E^2 + \alpha e_2 V_2/[E(E + \alpha)^2] - 1 = 0 \]  

(11)

Adding equations (10) and (11) using \( V_1 = V_2 + \varepsilon \) gives

\[
(E + \alpha)V_2 + \alpha V_2 + \varepsilon(E + \alpha)(e_2 + \alpha e_1)/E - 2(E + \alpha)^2 = 0. \]  

(12)

Taking the derivative of (12) with respect to \( \alpha \) gives

\[
V_2 (1 + K) + \varepsilon(1 + \alpha/E)(\varepsilon e_2 / \partial \alpha + \alpha \varepsilon e_1 / \partial \alpha + \varepsilon_1) + \varepsilon(e_2 + \alpha e_1)(1/E - \alpha(K - 1)/E^2) - 4(E + \alpha)K = 0.
\]

where \( K \equiv \partial E / \partial \alpha + 1. \)

We set \( \alpha = 1 \), so that we can write \( \partial e_2 / \partial \alpha + \alpha \partial e_1 / \partial \alpha = \partial E / \partial \alpha \) in the expression above.\(^8\) This gives

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\(^8\)Of course, we did not have to set \( \alpha = 1 \) to find an expression for \( \partial E / \partial \alpha \). We could have taken the derivative of equations (10) and (11) with respect \( \alpha \), found expressions for \( \partial e_1 / \partial \alpha \) and \( \partial e_2 / \partial \alpha \) and added them.
We determine the sign of this derivative numerically. We choose values for $V_2$ and $\varepsilon$, and solve for the equilibrium values of $e_1$ and $e_2$. We are interested in the sign of this derivative as we vary $\varepsilon$. Setting $V_2 = 5$, we find that there is a cut-off value of $\varepsilon$ (approximately equal to 1.36) below which the derivative in (13) is negative. Above this cut-off value, this derivative is positive. This is consistent with proposition 1.

To show that a mandatory rematch clause could result in greater aggregate efforts than a rematch clause which makes the probability of a rematch contingent on effort, we compare aggregate efforts when $\alpha = 0$ (i.e., mandatory rematch clause) with aggregate efforts when $\alpha = 1$ (i.e., effort-contingent probabilistic rematch clause). We undertake the comparison by varying $\varepsilon$ and setting $V_2 = 5$.

When $\alpha = 0$, the equilibrium effort levels are

$$e_1^{\text{mand}} = \frac{5(\varepsilon + 5)^2}{(\varepsilon + 10)^2} \quad \text{and} \quad e_2^{\text{mand}} = \frac{25(\varepsilon + 5)}{(\varepsilon + 10)^2}.$$ This gives aggregate effort, $E^{\text{mand}} = \frac{5(\varepsilon + 5)}{(\varepsilon + 10)}$. When $\alpha = 1$, the equilibrium effort levels are

$$e_1^{\text{prob}} = 0.2\varepsilon + 0.2e_2^{\text{prob}} + e_2^{\text{prob}} \quad \text{and} \quad e_2^{\text{prob}} = \frac{25 - 5\varepsilon - 2\varepsilon^2 + 5\sqrt{1625 + 45\varepsilon^2 + 550\varepsilon}}{2(\varepsilon + 10)^2}.$$ Given $\varepsilon \geq 0$ and $e_2^{\text{prob}} > 0$, we require $e_2^{\text{prob}} = \frac{25 - 5\varepsilon - 2\varepsilon^2 + 5\sqrt{1625 + 45\varepsilon^2 + 550\varepsilon}}{2(\varepsilon + 10)^2}$.  

\[9\] Notice that given $V_2 = 5$ and $V_1 = V_2 + \varepsilon > 0$, this argument holds for any $\varepsilon > -5$. That is, the omitted root gives $e_2^{\text{prob}} < 0$, for $\varepsilon > -5$. The selected root gives positive values for player 2’s effort level. However, we restrict the analysis to $\varepsilon \geq 0$. 

\[
\frac{\partial E}{\partial \alpha} \bigg|_{\alpha=1} = \frac{-[2V_2 - 4(E+1)\varepsilon(1+1/E)e_1 + \varepsilon]}{V_2 - 4(E+1)\varepsilon(1+1/E) - \varepsilon/E}.
\]
Let $\Delta = E^{\text{mand}} - e_1^{\text{prob}} - e_2^{\text{prob}}$. When $\varepsilon = 0$, $\Delta = 0.234 > 0$. Indeed, for several values of $\varepsilon \geq 0$, we find that $\Delta > 0$. Hence the valuation effect dominates the inequality effect for all the values of $\varepsilon$ considered.

The analysis also shows that making the probability of a rematch independent of effort (in this case $\theta = 1$) could give higher aggregate efforts than a rematch probability which is contingent on effort. To reiterate, this occurs if the valuation effect dominates the inequality effect. This gives the following proposition:

**Proposition 2:** If the difference in abilities between boxers in a fight is sufficiently small, then a mandatory rematch clause (i.e., probability of rematch does not depend on effort) results in a higher aggregate effort in the current fight relative to aggregate effort if the probability of rematch depends on effort. If the difference in ability is sufficiently large, then a mandatory rematch clause induces lower aggregate efforts.

The intuition for this result is the same as the one for proposition 1. A mandatory rematch clause gives the highest probability of rematch. This increases the boxers’ valuation of winning the current fight (i.e., the valuation effect). If the difference in abilities or valuations is sufficiently small, then the inequality effect is so small that it is dominated by the valuation effect. This increases aggregate efforts.

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10 We obtained this result by plotting $\Delta$ against $\varepsilon$. For example, for $0 \leq \varepsilon \leq 1000$, we find that $\Delta > 0$. For our purposes, this range of $\varepsilon$ is enough to establish our result.

11 While our specific example shows that the valuation effect could dominate the inequality effect for certain feasible differences in ability, we do not want to claim that our result might hold for all differences in ability because we did not examine all value of $\varepsilon$. However, we can confidently claim that our result holds for sufficiently small differences in abilities. This is a sufficient condition. It is not a necessary condition. Also, our analysis is based on a specific probability function (i.e., $\theta(E) = E/(E + \alpha)$). Nevertheless, we think that the two effects that we have identified, the valuation effect and the inequality effect, are very general.
4. Conclusion

This paper has shown that, in addition to being insurance schemes for boxers, mandatory rematch clauses in boxing contracts might induce greater efforts than contracts which make rematches contingent on effort. We argue that the practice of offering mandatory rematch clauses in fights involving only elite boxers increases aggregate effort. In general, the paper shows that a higher probability of a rematch will induce greater aggregate efforts, if the boxers are almost equally-matched. Otherwise, a lower probability of a rematch is preferable. This latter result is surprising because one would not expect a lower probability of rematch to induce greater efforts in the current contest.

We made some simplifying assumptions in our analysis. Our results do not hinge on these assumptions. What drives our result is the fact that changes in the probability of rematches exert two opposing effects: an inequality effect and a valuation effect.

We hope that this paper has shed some light on the economics of boxing contracts; in particular, mandatory rematch clauses.
References


