



Graduate Seminar

Department of
Economics and Finance

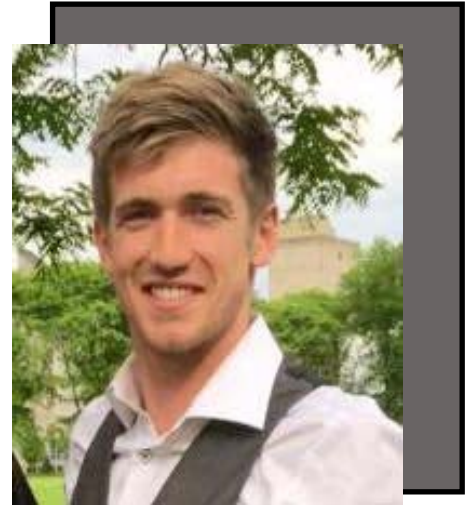
College of Business
and Economics

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MA Candidate

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Second Reader: Thanasis Stengos



The sunk cost fallacy in the NBA: evidence using player salary and playing time

I analyze the effect of player salary, a sunk cost, on player utilization in the National Basketball Association (NBA). According to economic theory, rational agents make decisions based on marginal expected benefits and costs, and non-recoverable costs should not influence decision making. Therefore, NBA teams should be playing their most productive players, regardless of salary. Whether decision makers in the real world actually uphold this normative theory and ignore sunk costs has been the topic of much empirical work. Previous similar studies have looked at whether NBA teams irrationally escalate commitment to their highest drafted players by giving them more playing time than their performance warranted, coming to mixed conclusions. I build on these studies by using salary to measure the impact of increased financial commitment on playing time, by using a fixed-effects model to control for unobserved individual heterogeneity which may have been biasing previous results, and by using a spatial autoregressive regression model to control for the dependence in playing time between players. The results indicate a small but significant sunk cost effect is found, as NBA teams play their highest paid players more than is warranted by their on-court performance.

Date: Wednesday August 16th 2017

Time: 11:00am

Room: Mackinnon 720



