

# Overinvestment in European Football Leagues

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## Abstract

In the last decade most clubs in European football leagues have experienced the paradox of rising revenues and declining profits. The present paper applies contest theory to provide an integrated framework of a team sports league and analyses the competitive interaction between clubs. We show that dissipation of the league revenue arises from "overinvestment" in playing talent. This overinvestment problem increases if the discriminatory power of the contest function increases, revenue-sharing decreases, and the size of an additional exogenous prize increases. We further show that clubs invest more when they play in an open compared to a closed league. The overinvestment problem within open leagues increases with the revenue differential between leagues.

Keywords: contests, sports league, overinvestment, revenue-sharing, promotion and relegation

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