Using the NFL Draft to Teach Asymmetric Information and the Principal-Agent Problem

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Draft Activity

01 Basic version
Short check for understanding.

02 Add GMs
A bit more time, but maybe more accurate.

03 Add dice
Even more time, but adds an interesting wrinkle.

Link to cards
Round 1

Use this version if you only have a little time for this activity.
We need volunteers!

Basic rules of the activity:

- Show only the front of your card.
- **DO NOT** reveal any information on the back of your card!
- Vote on the player you’d draft given the information you have.
Let’s see what’s on the back of the cards!

Given what we know now, would you keep your draft order?
Small group activity adding General Managers

Round 2
Adding the GMs

Possible extension:
In a typical transaction, both sides have information the other side may not know at the time of the trade.

You can add GMs to the activity to simulate this condition.

We need a few more volunteers.
Round 3

Here are some more wrinkles you can add.
**Dice, dice, baby**

Probabilistic wrinkle

Players have 6 items listed on the back of the card. Class rolls a die to see which item they discover.

1-2: More concerned with being an influencer than learning the playbook.
3-4: Loves to work with children, wants to start a new education program with a local school.
5-6: Has a family history of undisclosed health issues.
1. Add costs to players and give teams a cap on what they are allowed to spend as a way to prevent every team from drafting the same players.

2. You can also add an element allowing GMs/students to offset asymmetric information by spending points to scout players. (This might work best if you offer assignments in your class.)
Principal-Agent Problem

The NFL Draft also provides a chance to discuss the principal-agent problem in a creative way.
The NFL has a cap on rookie salaries. The NFLPA negotiates contracts with team owners.
Rookies
Why might the NFLPA agree to let teams create a cap on rookie salaries?
Do you think NFL veterans may have an incentive to reduce rookie salaries?

VS.

NFLPA
Which group is more likely to be a player rep, an NFL veteran or a rookie?
Might this be an example of an agent acting in a way that is contrary to the best interest of the principal?
You can also use the principal-agent problem to address the current discussion on running backs contracts.

In August 2019, Veronica Patton filed a petition with the National Labor Relations Board seeking clarification of the broader NFLPA bargaining unit, while explaining that the “rookie wage contract is economically harmful to workers in skill group (RB), but advantageous to players in skill group (QB),” and that the “current one-size fits all” approach to NFL players is “inappropriate.”
Additional Content

Economics Happy Hour podcast

Massey and Thaler paper

Episode 10: The NFL Draft

Overconfidence vs. Market Efficiency in the National Football League
Thank You!

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