

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



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Link to cards



## 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.





# 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?



# Round 2



Small group activity adding  
General Managers



# 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** ★

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### **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.**

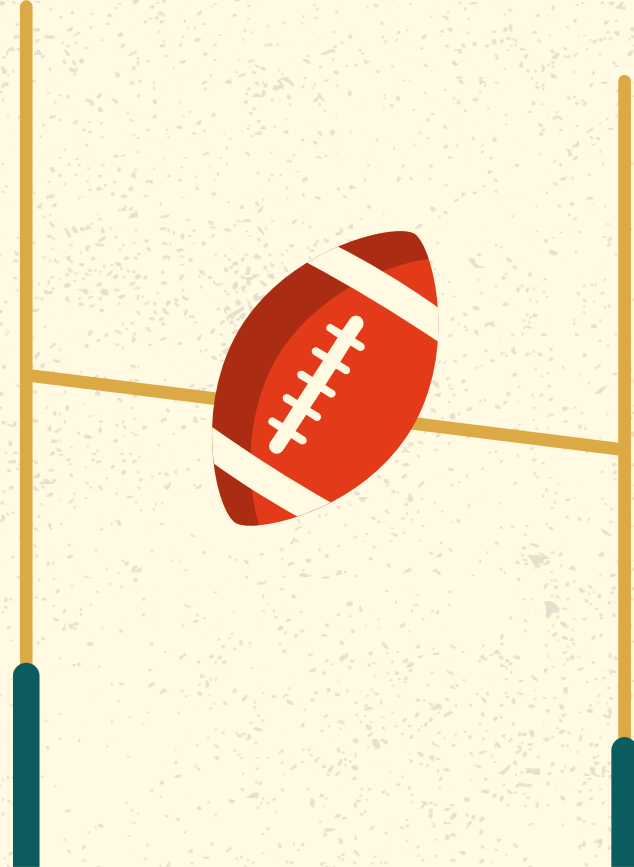
**5-6: Has a family history of undisclosed health issues.**



# Extra wrinkles

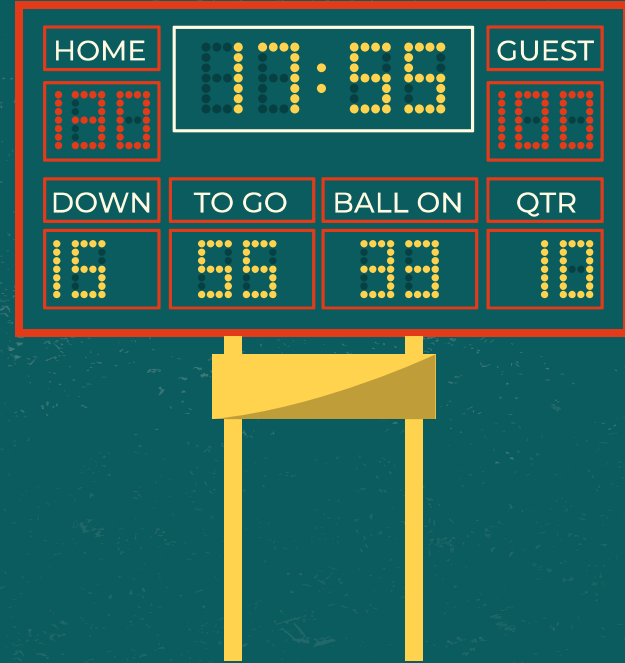


1. Add costs to players and give teams a cap on what they are allowed to spend as a way to prevent every team from drafting the same players.
2. You can also add an element allowing GMs/students to offset asymmetric information by spending points to scout players. (This might work best if you offer assignments in your class.)



# Principal-Agent ★ Problem ★

The NFL Draft also provides a chance to discuss the principal-agent problem in a creative way.





# Principal-Agent Problem

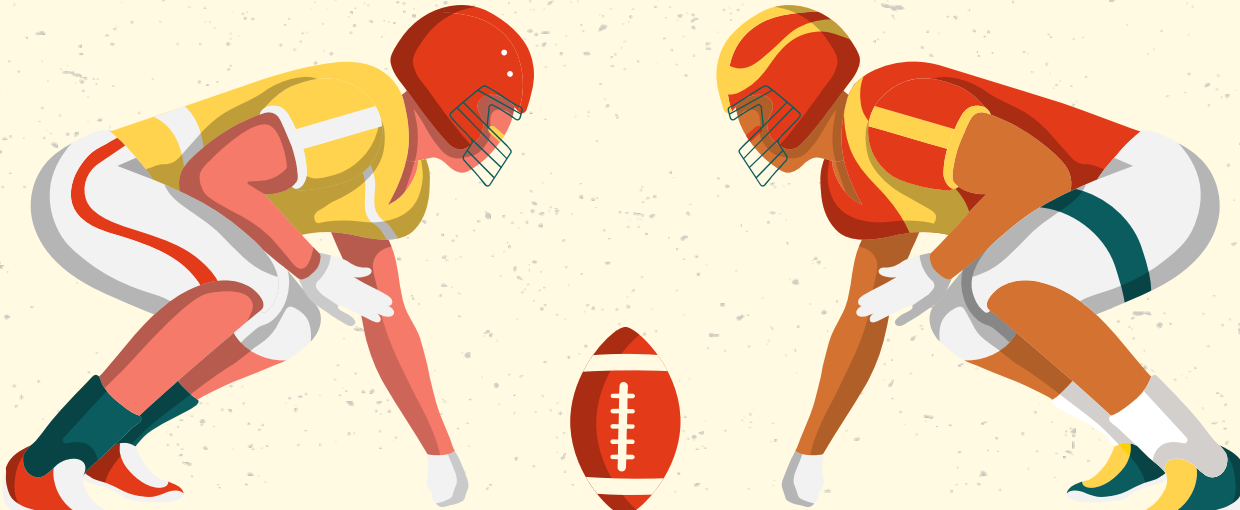


## Rookies

The NFL has a cap on rookie salaries.

## Veterans

The NFLPA negotiates contracts with team owners.



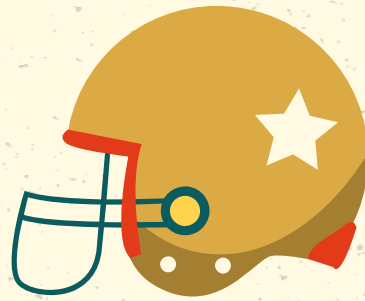


## **Rookies**

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?



# Another Extension



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



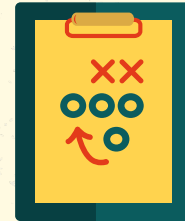
## Economics Happy Hour podcast

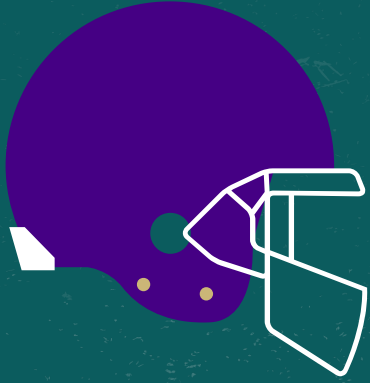
Episode 10:  
The NFL Draft



## Massey and Thaler paper

Overconfidence vs.  
Market Efficiency in the  
National Football League





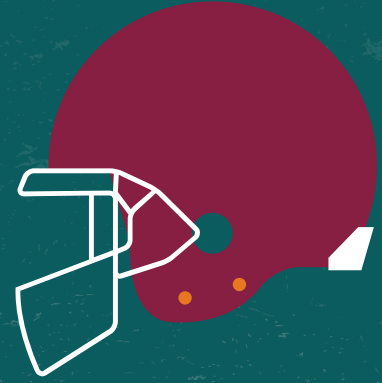
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# Thank



# You!



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