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Economics of Salary Dispersion in the National Basketball Association

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Oral Presentation O4.1

**ECONOMICS OF SALARY DISPERSION IN THE NATIONAL
BASKETBALL ASSOCIATION**

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The purpose of this study is to discover the optimal amount of salary dispersion for an NBA team and the affect that dispersion has on team wins and revenue. The optimal amount of salary dispersion could be different for teams that want to maximize wins and teams that want to maximize revenue. For the purpose of this study, five different measures of salary dispersion are utilized to most effectively understand the effects. Empirical models are constructed and OLS regressions employed using cross-sectional data from the 2006-07 NBA season through the 2010-11 season to understand the relationship. The empirical evidence supports the idea that the larger the salary dispersion the greater the number of wins achieved. The evidence also implies that the amount of dispersion does not significantly affect the amount of revenue generated by a team. According to this study, a win maximizing team should attempt to hire as many superstars as possible given the NBA's salary constraints.