Economics of Salary Dispersion in the National Basketball Association

Dan Schouten
*Illinois Wesleyan University*

Michael Seeborg, Faculty Advisor
*Illinois Wesleyan University*

Follow this and additional works at: [https://digitalcommons.iwu.edu/jwprc](https://digitalcommons.iwu.edu/jwprc)

Part of the Economics Commons

Schouten, Dan and Seeborg, Faculty Advisor, Michael, "Economics of Salary Dispersion in the National Basketball Association" (2012). *John Wesley Powell Student Research Conference*. 1.
[https://digitalcommons.iwu.edu/jwprc/2012/oralpres4/1](https://digitalcommons.iwu.edu/jwprc/2012/oralpres4/1)

This Event is protected by copyright and/or related rights. It has been brought to you by Digital Commons @ IWU with permission from the rights-holder(s). You are free to use this material in any way that is permitted by the copyright and related rights legislation that applies to your use. For other uses you need to obtain permission from the rights-holder(s) directly, unless additional rights are indicated by a Creative Commons license in the record and/or on the work itself. This material has been accepted for inclusion by faculty at Illinois Wesleyan University. For more information, please contact digitalcommons@iwu.edu.

©Copyright is owned by the author of this document.
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.