Econ 416 Quiz 3 Fall 2004 - 6 Points Possible

Multiple Choice
Identify the letter of the choice that best completes the statement or answers the question. Each answer is worth 1 point.

____ 1. When a group of firms acts as one entity in order to get output produced, what is the group called?
   a. single entity cooperative
   b. collusive group
   c. joint venture
   d. a monopoly

____ 2. In what ways do professional sports leagues use market power to restrict output?
   a. by limiting capacity in stadiums and arenas
   b. by limiting the number of players that a team can have on its roster
   c. by limiting the number of cities that have teams below the number that could profitably support them
   d. by limiting the scouting budget

____ 3. When a new team enters a league, it must pay a franchise fee. Which of the following is a component of the franchise fee?
   a. The increased depreciation of existing teams' stadiums.
   b. The present value of all future profits made by the new team.
   c. The present value of all player salary increases caused by the new team.
   d. The present value of all lost TV revenues in the new team's home city.

Narrative 1

Suppose Bob Taylor buys the Vikings for $500,000,000. Bob estimates that $200,000,000 of the purchase price was used to buy the players. Bob will use straight-line depreciation for 5 years to write the purchase price of the players off of the team's taxes. Suppose Bob faces an income tax rate of 30%.

____ 4. Refer to Narrative 1. Each year, how much lower will the team's taxable income be by using this type of depreciation (compared to not depreciating the players)?
   a. $200,000,000
   b. $12,000,000
   c. $40,000,000
   d. $50

____ 5. Refer to Narrative 1. Each year, how much lower will the team's taxes be by using this type of depreciation (compared to not depreciating the players)?
   a. $200,000,000
   b. $12,000,000
   c. $40,000,000
   d. $3

____ 6. Professional sports team owners can organize their teams in different ways for tax purposes. One way is for an owner to organize the team in such away that team profits or losses can be passed through to the owner's personal income tax returns. This type of organization is called a
   a. Subchapter S corporation
   b. Sports Association
   c. Joint Venture
   d. Single entity cooperative
MULTIPLE CHOICE

1. A
2. C
3. B
4. C
5. B
6. A