

"THE WINNER'S CURSE IN SPORTS: AUCTIONS, OVERVALUATION, AND THE ECONOMICS OF VICTORY"

From IPL auctions to Olympic hosting bids, the thrill of victory often hides a paradox. In competitive bidding, success often carries a hidden cost. The Winner's Curse, a paradox first identified in auction theory, resurfaces vividly in the commercial dynamics of modern sports. It reveals how over-optimism and competitive intensity in auctions, transfers, and broadcasting rights systematically erode the very gains that victory promises.

Anuj Tiwari

INTRODUCTION

In the economics of auctions, the term Winner's Curse describes a paradoxical outcome: the "winner" of the bid often ends up worse off than the rest, having overpaid relative to the true value of the prize. First observed in offshore oil lease auctions in the 1970s (Cappen, Clap and Campbell, 1971), the concept has since extended to a wide array of economic phenomena, from corporate mergers to an auction bid at the Indian Premier League. Sports, particularly in this era of televised mega events and franchises, gives one of the most visible demonstration of this principle.



Artwork : The Fight Between Carnival and Lent

Teams and franchises, competing under conditions of uncertainty and emotional intensity, engage in bidding wars for talent acquisition and hosting privileges, often to their loss.

At its core, the sports economy works through a series of auctions. Player transfers, drafts, television broadcasting rights, and sponsorship contracts are all mechanisms that allocate scarce resources under competitive bidding. In this setting, the valuation of an asset, be it a player's performance or the commercial potential of hosting a tournament or sponsoring a franchise is inherently uncertain.

Each bidder forms expectations based on available information (Rational expectations). Yet the nature of competition ensures that the "winner" is the one whose expectations were the most optimistic, and therefore, most likely inflated. This divergence between anticipated value and realised payoff constitutes the Winner's Curse. For example, a cricket franchise in the Indian Premier League (IPL) may secure a star at an extraordinary price, only to find that injuries, adaptation issues, or form slumps make their investment uneconomical.

The IPL provides perhaps the clearest demonstration of the Winner's Curse in contemporary sport.

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Teams enter the auction with fixed budgets, but the uncertainty surrounding player performance magnifies the risks of overbidding.

“AUCTIONS MAGNIFY BEHAVIOURAL BIASES, MAKING THE PURSUIT OF VICTORY COSTLIER THAN DEFEAT ITSELF. THE RESULT IS NOT COMPETITIVE BALANCE, BUT SYSTEMIC INEFFICIENCY IN SPORTING ECONOMICS.”

To put forward a few cases before the readers, The purchase of Andrew Flintoff and Kevin Pietersen in the inaugural season of the league, The record breaking sum spent for Yuvraj Singh in the 2015 season proved to be fruitless tree for the franchises with a big hand. More recently, franchises have spent unprecedented amounts on emerging Indian talents, to ensure that they acquire atleast one or two future stars (as Royal Challengers, formerly Royal Challengers Bangalore did with Virat Kohli in the 2008 season).

Academic studies on IPL auctions have shown systematic overvaluation of players, especially all-rounders. The anchoring effect of the superstar, coupled with the scarcity of certain skill sets, fuels inflated bids. Empirical analyses suggest that, in several cases, franchises with more restrained spending have enjoyed better returns on investment (for instance, under financial stress FC Barcelona has developed several of their talents at their academy, La Masia) than those that pursued marquee names at any cost.

The Winner's Curse is not only confined to player auctions. Bidding for broadcasting rights is another arena where this over optimism is seen. In 2017, Star India acquired the media rights of IPL for ₹16,347 crore, a sum

that raised questions about break - even feasibility. Similarly, FIFA and Olympic broadcasting rights often are sold for staggering sums, yet the bidding media networks struggle to monetise these investments fully.

The same pattern emerges in the economics of mega-events. Nations compete aggressively with one another to host the Olympics or the FIFA World Cup, projecting massive boosts to tourism, employment, and visibility. Yet, as most post - event analysis repeatedly show, hosts end up incurring debts and underutilised infrastructure. The Athens 2004 Olympics is often cited as a textbook example: the country spent nearly €9 billion, with little long-term economic return, exacerbating fiscal vulnerabilities that contributed to its later debt crisis.

Beyond cold financial logic, behavioural economics explains why the Winner's Curse is so prevalent in sports. The psychological dimensions of competition including but not limited to overconfidence, fear of regret, and the symbolic value of victory, drive bidders to ignore rational boundaries. In auctions, winning has symbolic prestige and in sports, this effect is magnified.

Owners and franchises are not merely buying players or rights, rather they are purchasing identity, prestige, and fan loyalty. The value of being seen as “ambitious” can overpower short-term financial prudence, creating a bias towards overpayment.

This dynamic is visible in football transfers as well. Paris Saint-Germain's record-breaking purchase of Neymar for €222 million in 2017 was more rationally seen as a marketing strategy as much of a sporting decision. Yet, in financial terms, the returns have been ambiguous. The desire to outbid competitors, to signal status, and to embody ambition often overrides cautious valuation, cementing the cycle of the Winner's Curse.

Recognising the risks of overvaluation, sports organisations have experimented with mechanisms to mitigate the Winner's Curse. Salary caps in the National Basketball Association (NBA) and revenue-sharing models in Major League Baseball are attempts to enforce prudence. Similarly, IPL franchises are constrained by budget caps, though the bidding dynamics still induce overshooting.

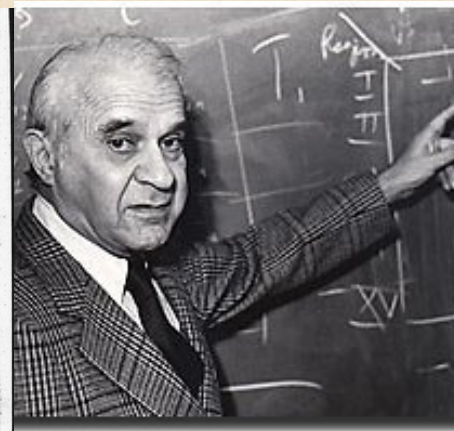


CONCLUSION

The Winner's Curse highlights a fundamental irony of economic competition: winning does not guarantee success, and in fact, may often guarantee loss. The euphoria of winning bids, whether for broadcasting rights, hosting privileges, or marquee players, should be tempered with rigorous cost-benefit analysis. Transparency, independent auditing, and the use of data analytics in player valuation can help reduce the distortions of overconfidence.

Yet, it would be simplistic to treat every inflated bid as an error of judgment. In many cases, franchises and broadcasters pursue broader strategic goals—such as brand expansion, market penetration, or long-term fan engagement—that go beyond immediate financial returns. These intangible payoffs complicate the line between a costly miscalculation and a calculated risk, reminding us that not all “losses” in monetary terms are failures in the larger game of reputation and influence.

In the world of sports, where passion collides with profit, the principle manifests vividly in auctions, transfers, media rights, and mega-events. Understanding this paradox is more than an academic exercise; it is a practical necessity for franchises, broadcasters, and the viewers. As the sports are getting more commercial, recognising and resisting the Winner's Curse may determine not only who triumphs on the field, but who survives in the boardroom.

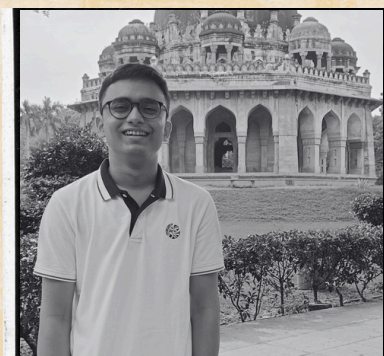
**WASSILY LEONTIEF**

conventional trade theory by showing that the United States, though capital-rich, exported more labour-intensive goods than expected. His rigorous, data-driven approach transformed economics from abstract theorising into a discipline rooted in empirical evidence, making his work indispensable for students and researchers even today.

MEET THE GREATS **WASSILY LEONTIEF**

The economist who saw the future.

Wassily Leontief was one of the most influential economists of the 20th century. Awarded the Nobel Prize in Economics in 1973, he is best known for developing the input-output analysis, a method that maps the interconnections between different sectors of an economy. This breakthrough allowed economists and policymakers to see how industries depend on each other for inputs and outputs—laying the groundwork for modern economic planning, trade analysis, and even environmental economics. Leontief also contributed significantly to labour market studies, famously highlighting the “Leontief Paradox,” which challenged

**ANUJ TIWARI****ABOUT THE AUTHOR**

Anuj Tiwari, a third-year Economics Honours student, currently contributes as a member of the Editorial Board at the Ramjas Economic Review (RER). His academic focus lies in international trade and macroeconomics, reflecting a dedicated interest in these vital facets of economic study.