

Maybe You Can Sell It: The effects of secondary markets on dynamic pricing

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Abstract

In recent years, many sports organizations have started transitioning into Dynamic Ticket Pricing (DTP) strategies. Since the prices now fluctuate based on demand, consumers and their behaviors have a more significant impact on the way the market functions. The introduction of secondary markets, such as StubHub and eBay, have significantly complicated selling sports tickets. In this paper, I attempt to determine not only how these secondary marketing affects consumer behavior, but also consumers' perceptions of both primary and secondary markets. I have read and analyzed many studies that have tracked secondary source prices over the course of sports seasons and examined their effects on consumer behavior. I argue that secondary markets actually benefit the primary markets by producing new information to increase revenue. Moreover, I analyze the evolution of the relationship between secondary markets and dynamic ticket pricing and how that can impact other industries. Studies have shown that secondary sources can display a lot of patterns that help further understanding of consumer behavior. Sports tickets are not the only market that use dynamic pricing strategies. Hotels and airlines use the same strategies and more industries are transitioning into demand-based pricing, but do not have secondary markets. Hotels.com, Kayak, and other sites like this are not secondary markets; they just compare prices of different primary markets. If secondary markets have a significant impact on ticket sales, it could impact the perceptions of other industries and could be used to the advantage of these industries, especially ones with emerging secondary markets and transitioning demand-based pricing markets.

Background

I moved to California in 2012. Back then, my family could easily afford tickets to see the Golden State Warriors, a California-based basketball team, because they were only ranked 4th in the Western conference, the part of the league with all teams on the West Coast. Starting

in the 2014-2015 season, prices for Warriors tickets skyrocketed. Prior to this season, the Warriors got a new head coach. That season they only lost 15 games and were the National Basketball Association (NBA) Champions. That was also the year Stephen Curry, one of the team's best players, was named the league's Most Valuable Player (MVP) unanimously. Since then, the Warriors have been in every championship. They won again in 2017 (NBA, 2017). Because of their incredible success, a ticket in the worst seat for their game against the Wizards at Capital One Arena in February 2018 is already priced over \$100, where tickets in January in the same seats for a game against the Oklahoma Thunder is priced at \$31 (Ticketmaster, 2017). This is a great example of how dynamic ticket pricing, also known as demand-based pricing, works.

In 2010, the sports industry made a major change to the way they sell tickets to games. The San Francisco Giants baseball team was the first to start pricing their tickets based on demand (Shapiro and Drayer, 2012, p. 532). This is called dynamic ticket pricing and it has been implemented by most professional sports teams. In this system, many things can affect the price of sports tickets. Team performance, opponent, availability, and other things can contribute to demand and influence the prices of tickets (Dwyer, 2013; Rishe, 2014; Shapiro, 2016a). One of the newest actors impacting ticket prices is the presence of secondary markets (Shapiro, 2012). Sites like StubHub and eBay allow people to resell their tickets. This has caused economists to study the effects of these markets on the prices of sports tickets. After examining these studies, I have found that secondary markets are beneficial to primary markets because they provide more information to primary markets and will help increase revenue and adjust pricing strategies.

Imagine if movie theater tickets transitioned to demand-based pricing. What happened to Golden State Warriors tickets happens to tickets to see the new Star Wars? What if the flight you booked to go home conflicts with something and you cannot make the flight, but it is non-refundable? What if you could sell it? The implications from sports ticketing and the relationship between primary and secondary markets could affect how we purchase many other things, especially now that almost every market is evolving to generate the most revenue. These industries, as sports ticketing has, can use information from secondary markets to improve their profits.

The Effect of the Perception of Fairness

Consumers' perceptions of price fairness can be linked to the source of the product. In some instances, lowering prices can lead to a positive perception on the source of the product. A study was conducted by two researchers from the psychology department at Temple University, Carter L. Smith and Donald A. Hantula (2003). In this experiment, participants were told to shop for CDs in a simulated "internet mall" as the "bulk CD buyer for a fictional disk jockey company" (p. 653; p. 659). Participants were told to choose 40 CDs from a list of 60. When a participant would click on a store, it would take .5 seconds to get from the menu to the store (p. 660). When reporting satisfaction, many participants said the store with the cheapest prices had the fastest service, even though every store had the same speed of service (p. 667). This study was used to get a deeper understanding of consumer behavior patterns. What I find interesting is how consumers reacted to the different online stores based on pricing. Each of the stores were the same, other than prices. Still, participants were more satisfied with the cheaper stores. This demonstrates how price and source of product interact in the minds of consumers. Because of this, primary markets should keep their prices lower than consumers expect. However, this is not always possible. As will be seen later, secondary markets can help by providing more information on consumer decisions to know when tickets will still be bought at higher prices.

Consumers are more willing to pay high prices if they are expecting to pay them. Another study looked at the relationship between price and source. Stephen Shapiro, a sports market researcher at Old Dominion University, and his colleagues (2016) summarized another marketing researcher's work in order to compare those findings with their findings. Thaler (1985) conducted an experiment based on a consumer's willingness to pay for a beer on the beach. The consumer's friend was going to buy the consumer a beer and he had to give the maximum price he would pay for a beer at that moment. The same scenario was tested when the beer was being bought from a bar at a luxury hotel, and the maximum price was much higher. When the beer was thought to be bought at a grocery store, the maximum price was lower (Shapiro et al., 2016b, p. 228). Consumers already have a perception on the source selling a produce and make decisions of whether or not a price is fair based on these preconceived notions. This means that consumers have an idea of how much something should cost and how

much they will pay based on where the product is being sold. Relating this to sports ticketing, primary markets should keep this, and how this affects consumer behavior, in mind when pricing tickets, especially with secondary markets as competition.

Now we know that price and source are related: Consumers will pay more for something if they expect the source to charge more for it and perceive this transaction as fair. However, consumers also have more favorable perceptions of sources that offer lower prices. This is why you get beer from a grocery store or a liquor store more often than you buy from a luxury hotel. This is also why fans are willing to see the Washington Wizards play the Golden State Warriors for over \$100, but only willing to pay \$30 to see the Wizards play Oklahoma Thunder. The game against the Warriors is going to be a better game, so people expect the price to be higher than an Oklahoma game. The price would not be seen as fair if a ticket to see Oklahoma was over \$100.

The Effect of Secondary Markets in Sports

Secondary markets can be used to alter the way tickets are sold over time by primary markets. By using information about secondary market behavior, primary markets can manipulate their prices so the market does not behave the same way. In 2013, Brendan Dwyer, an assistant professor at the Center for Sport Leadership at Virginia Commonwealth University, conducted a study with his colleagues to explore the impact of time in consumer behavior. Participants were asked about estimations on change in price or availability between then and the game. They estimated that the probability of the seats and prices staying the same would increase as the game got closer. In other words, in the six days before the game, participants estimated about half the seats listed would be the same as on game day, whereas the seats 13 days in advance would most likely change before game day (p. 166-180). Essentially, if the game was a while away, customers thought there would be less seats available and prices would change as time went by. However, as the game was only a week away, consumers did not feel urgency to buy tickets because they did not predict a change in availability or price. Participants predicted higher probabilities of available seating if their tickets were on StubHub. Prices on StubHub dropped significantly close to the game. This means that closer to the game, people are probably more likely to buy from StubHub (p. 166-180). These perceptions about StubHub may be manufactured. In a study conducted by

Shapiro and Drayer (2012), they concluded that the San Francisco Giants may have altered their prices against demand. The scholars think the Giants do not want fans thinking ticket prices go down closer to the game. This way, “fans choosing to attend a game at the last minute are asked to pay a premium for that convenience” (p. 543). This is a good example of how primary markets can use information given to them through studying secondary markets to increase revenue. StubHub is operated based on demand only. If primary market tickets operated the same way, prices would also go down close to the game. By adjusting prices to avoid this pattern, primary markets encourage fans to buy tickets sooner rather than later. If fans decide to purchase tickets later, it is possible that they might not buy tickets at all. By examining a secondary market, primary markets can boost ticket sales earlier before the game.

It could be argued that secondary markets hurt primary markets because it is competition, and takes money away from primary market sellers. However, not as many people are familiar with StubHub, so people are more comfortable buying tickets from the primary market. The study mentioned earlier, by Shapiro et al. (2016b), ultimately illustrated the importance of familiarity in consumer decisions. The participants were split into four groups and were given the price of tickets, each group got a different set of tickets. Before shopping, the participants gave a maximum price they were willing to pay. Each group was offered a price 10% below their Willingness to Pay (WTP) price. Two groups were given prices from the sports team, and the other two groups got prices from StubHub. One group from each of the two sites received a reference price stating the face value was less than the actual value (p. 227-240). Prices were not listed in the article, but it would have worked like this: Each group stated they would pay \$100, but received tickets priced at \$90. The groups that did not receive a reference price thought this to be fair. However, two groups got their price (\$90) but were also told the face value of the ticket was \$50. These groups thought the price of \$90 was not fair. That is totally understandable. Basically, in order for consumers to purchase tickets and accept the transaction as fair, the price has to be at or below the consumers' expectations and below what the consumer believes to be the value of the ticket. Relating this to secondary markets, people were originally not comfortable with StubHub, but over several trials, the people given StubHub got comfortable with the secondary market, so Shapiro saw no

difference in fairness between primary and secondary markets (p. 227-240). If people remained unfamiliar with StubHub, it would not be a significant competitor. However, more and more people are becoming familiar with it as a legitimate market. In order to combat the problem StubHub would be as competition, the primary market and secondary market made an agreement.

More and more sports consumers will grow familiar with purchasing from secondary markets like StubHub or Ticketmaster because in 2012, Major League Baseball (MLB) renewed an agreement with StubHub (Espn.com news services, 2012). The agreement legitimizes StubHub as a secondary market to buy and sell tickets (Watanabe et al., 2013, p. 129). Another part of the agreement gives MLB a certain percent of revenue from each StubHub purchase (Shapiro and Drayer, 2012, p. 543). Following the renewal of the MLB-StubHub agreement, Nicholas M. Watanabe, of the University of Missouri, did a study with his colleagues (2013). This study sought to find the impact of the StubHub-MLB agreement on ticket prices. It examined data from media guides from the two MLB Leagues and team websites. They collected information from 1975 until 2010. StubHub was found to be positive and impactful. Teams got more information from StubHub and were able to adjust prices accordingly. After the agreement, there were more price levels for each game. The inequality between each level also grew. These results can help generate revenue, especially with the new price dispersions. Price dispersions allowed the teams to get some of the surplus generated by consumers (p. 129-137). This is another example of how secondary markets can end up benefiting primary markets by giving them information about their consumers to improve revenue and profits.

StubHub is not the only site researchers have used to examine sports consumer behaviors. Secondary markets are really useful for this purpose and primary markets can use this research to improve pricing strategies in this new dynamic market. Thinking more globally in sports market research, Christoph Kemper, a sports researcher at the German Sport University Cologne, and his colleague (2015) based a study on Germany's main secondary market: eBay. Not only did the study seek to understand the behavior of secondary markets in Germany, but they looked at different factors to see which had significant impacts. German sports markets do not operate in a demand-based way as United States

sports markets have started operating. German secondary markets, however, do operate based on demand. This exploration delves into a kind of pricing unfamiliar to German markets. In the study, the scholars used many variables including ones related to team performance and weather. The data they collected was from the second half of the soccer season. The data accounted for 11,637 tickets sold in 6,510 eBay auctions. The average price per ticket sold was 69.40 euros, about twice as much as the face value of the tickets. The scholars also found the games that were in the highest demands were mid-day Saturday games (p. 142-158). This information can be used to the advantage of German ticket sellers. If Germany started transitioning to dynamic ticket pricing they could charge more for tickets, since people are willing to pay more, especially for mid-day Saturday games.

Similarly, Patrick Rishe, from Washington University in St. Louis, studied college sports tickets with two colleagues (2015). This study looked at the influences of secondary markets on college game tickets. College tickets are also not demand-based pricing as professional sports are. This study looked at data from SeatGeek and TicketCity, two secondary markets for college tickets. Interestingly, the study found that if people were travelling to the game from farther away, they were willing to pay more for tickets. This is because regular season games do not have the same draw that a big college game like the Rose Bowl has. This source and the German source were great for information to compare secondary markets in inelastic markets, as opposed to in dynamic markets (p. 357-374). In another study, Rishe and his colleagues (2014) studied secondary market prices during March Madness. In this study, they also found that “locals” paid less of a markup than “non-locals” (Rishe et al., 2014, p. 221). This further emphasizes location in relation to consumers’ WTP. Taking this into consideration, major league, professional sports could price tickets for big games, like rivalries or championships, higher, especially if the team’s fanbase is located farther from where the game is being held. This, too, could increase revenue.

These three studies found information about consumer behavior that might not have been found without studying secondary markets. In studying eBay in Germany, scholars can see when the highest demand is and how much some fans are willing to pay. When studying StubHub, scholars found information that teams could implement in their pricing

strategies which helped them make more money. If pricing managers in Germany used the information found in Kemper's study, they, too, could increase revenues. Comparably, Rische et al. (2015), looked at a specific and famous college game. Rische et al. (2015) recommended a "more comparative analysis across collegiate and professional sports" as changes in college sports "will likely affect secondary market pricing in the future" (p. 371). Between the two studies Rische et al. (2015; 2014) conducted, they found information that would be helpful if NCAA decided to transition into dynamic ticket pricing the same way professional sports leagues have used secondary markets in pricing strategies.

Secondary markets have evolved radically. From being on their own to arranging business with professional sports leagues, the presence of secondary markets has grown in the industry. There are over a hundred different sites that resell tickets. The founders of SeatGeek, the ticket secondary market that was studied by Rische et al. (2015), created a new app to help consumers navigate the secondary market. This app, much like Kayak or Trivago, sorts through each site's tickets to find consumers the cheapest price (Feldman, 2017). This development proves we cannot ignore the impact of secondary markets.

The Potential Effect of Demand Pricing and Secondary Markets in Other Markets

Other industries have been transitioning to dynamic ticket pricing. Some theaters across the country have been using demand to price their tickets. The show itself as well as which day in the week and what time are factors that drive price. Some shows will have matinee shows on a weekday and, for that performance, ticket prices are low because not as many people are available at that time. Still, many theaters struggle to keep people coming. A webinar hosted by an arts consulting firm, TRG Arts, claims that dynamic ticket pricing "is not enough" to bring in the revenue theaters desire (Nichols, 2017). For some venues, certain shows have tickets sold on secondary markets. The popularity of this is not as high as with sports, but, like in sports, the secondary market could grow quickly. Some venues, like DAR's Constitution Hall, have already begun to use Ticketmaster to sell tickets for events. If the secondary market continues to grow, it would be helpful to theaters to receive information on how tickets sell in secondary markets. This way, they will have more insight as to how consumers feel and can price tickets with more information.

Movie theaters have yet to start selling tickets based on demand. However, Regal Cinemas are supposed to begin to sell tickets using dynamic pricing beginning in 2018. This would make prices for big-budget, blockbuster films higher, but, on the other hand, smaller, lower rated films would be cheaper. It will be interesting to see if this tactic will increase revenue for movie theaters. Cinemas are an industry that have had external markets, separate from the box office, for a while. Fandango and other ticket selling services have been flooding the internet for years. While not a reselling service, some movie theaters do not sell tickets through Fandango, even though many do.

Not all scholars believe secondary markets are beneficial. Adrien Bouchet and his colleagues from the University of Tulsa (2016) argue that secondary markets can be disadvantageous for the primary markets. When consumers book hotels, flights, (industries that both use demand-based pricing), they do not have the option to look at secondary markets. Because of this, they do not know the number of available flights or how quickly the flight will fill up (p. 918-919). While this is probably true for flights and hotels, it had the opposite effect for movie ticket sales. This may be because movie tickets are not usually purchased as early in advance as flights and hotels. Consumers probably use the app or website for Fandango to buy tickets to make sure they have seats. It is not uncommon to get to the theater and have a movie be sold out, especially if the movie is new and popular. Sites like Fandango have actually increased revenues, especially after a slight slump in the early 2000s. However, recently, especially this summer, movies have not been doing as well in the box office (Wilkinson, 2017). This is why some theaters are changing pricing strategies to boost profits.

While hotels and flights may have advantages due to a lack of secondary markets, the internet is changing the game, especially for hotels. *The New York Times* (2016) wrote a piece on a new secondary market for hotel rooms. Roomer and Cancelon, two different sites with the same premise, allow consumers, who have missed the cancellation period, to sell the hotel room to someone else. This way they do not lose out on the entire the amount they spent on the room. The article quotes a Cornell Hotel Administration faculty member as an expert. According to the article, this could have a heavy impact on the hotel industry. On the other hand, someone who tried the service told *The New York Times* about its faults. He

booked a room and the reservation did not transfer to his name (Zipkin, 2016). News like this could prevent people from using this as a means to book hotel rooms. Most consumers are unfamiliar with the sites, and if what they do hear is negative, they probably will not feel comfortable buying from this source. However, as Roomer and Cancelon improve their services and gain publicity as legitimate markets, as StubHub has done, more people would book rooms through these services. Hotels, like other dynamic markets, will soon need to learn to work with secondary markets in the ways sports ticketing has. By examining consumer behaviors on secondary markets, hotels can also increase revenue by gaining insight on how to manipulate prices.

Conclusion

I still cannot afford tickets to see the Golden State Warriors, as fun as it would be to watch them play in D.C. Even after learning about secondary markets, I am still wary about purchasing tickets through resale markets. All tickets for events at Capital One Arena, the stadium in D.C. where the Washington Wizards play, are sold through Ticketmaster. Through Ticketmaster, you can purchase tickets from the primary market, but you can also purchase resale tickets. When I was buying tickets for Demi Lovato's concert in March, the cheapest tickets I found were actually resale tickets. Through Ticketmaster, I was comfortable buying the resale tickets because the primary market sold the tickets on the same site. After purchasing my Demi Lovato tickets, there was an option to automatically sell the tickets through Ticketmaster. If I end up not being able to attend the concert, I could sell the tickets from the click of a button. I like the options I have as a consumer to buy and sell tickets for different events.

As a consumer I look forward to having these same options for flights and hotels. As I bought my ticket home for winter break, I chose the cheapest option. However, since I got the cheapest flight, it is nonrefundable, no matter when I try to cancel my ticket. If an emergency were to come up, I would not have any options. I would lose \$150 from that flight, plus however much a new flight would cost. There are obviously economic factors as to why airlines have these guidelines, but it is not flexible for consumers. There is not yet a secondary market for flights, and the secondary markets for hotels are, so far, unreliable. I think overtime these kinks will work themselves out and the secondary markets will be very successful.

This is great for us as consumers because we will have more options for buying and selling and making decisions that fit our busy and unpredictable lives. However, these secondary markets will also benefit ticket sellers as more information on consumer behavior can help them adjust prices for maximum profits. Golden States Warriors tickets are so expensive because sports fans are willing to pay so much to see that game. I was not surprised to see how expensive they were, even if I was initially a little disappointed. If I was a bigger Warriors fan, like my dad, I would probably consider paying to see them play. However, I am just as content watching the game in my pajamas in the dorm lounge.

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Reflective Essay on Research Process

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My college writing seminar went over the basics of library resources. In high school, my library did not have many databases, and none of my teachers required scholarly resources. The first time I had to write a research paper was for this class, and I really did not know where to start. My first research paper was a predecessor to the paper I have entered into this contest. I wrote about the cultural significance of the vinyl record. My paper uncovered some reasons present-day youth purchase vinyl records. That topic is extremely broad, and no good research paper is written about a broad subject. Since I did not know where to start, I went to the Research Assistance Desk at the library.

I told the librarian my topic, and he helped me come up with some strategies to get the best search results for my paper. He told me SearchBox sifts through most of the databases American University has for students to use. We went through the Boolean terms, such as AND, OR, the asterisk, and quotation marks. Finally, we brainstormed combinations of words, or search strings, to use. After this visit, I felt confident I could find resources for almost any topic I needed to research.

The paper I have entered into this contest is called "Maybe You Can Sell It: The effects of secondary markets on dynamic pricing." It looks at the role of secondary markets, like StubHub and Ticketmaster, in dynamic ticket pricing in sports marketing and other fields. This paper is an extension of the first paper I wrote about vinyl records. It is probably confusing to understand how I got from vinyl records to sports marketing. However, using a series of search strings with various Boolean terms, one could get from one topic to virtually any other topic. More specifically, I was interested in how pricing affects consumer decisions. I was originally thinking of researching concepts like Buy One, Get One Free, or buying in bulk at Costco. Essentially, it would review how pricing makes people buy things they did not need or particularly want.

Moreover, I did not only use random search strings to get from vinyl records to sports marketing, but one specific database: *PsychInfo*. *PsychInfo* has a really cool advanced search engine. After one types in a search term, the database provides dropdown menus of other key terms to add to the string to filter out certain results. It is unique in this aspect from any other database. In this database, I came across an article that talked about consumers' experiences in buying CDs in a virtual mall. This article gave me new economic terms to use in my searches. Throughout my further searches in the SearchBox, *ProQuest*, and other large databases, I used

these terms. Eventually, I found many resources that discussed Sports Marketing, a subject I never even knew existed.

I came across several articles from various journals on sports marketing. The field is dense and there were countless directions I could have gone in terms of my research. However, the idea of dynamic ticket pricing resonated strongly with me. Dynamic ticket pricing is when the price of tickets fluctuates with demand. When the tickets are more in demand, they are more expensive. My family is made up of basketball fans. We went to games all the time, until the Golden State Warriors started winning and tickets got extremely expensive. As I read further, I realized this random economic concept applies to my life in many ways. Hotels, flights, and concerts all use the dynamic pricing system. When writing this paper, I ended up buying tickets from Ticketmaster for a Demi Lovato concert. I used a secondary market and it made me think about how secondary markets would affect other industries. This is where I started my paper. I knew I would not be able to write it if I did not have a connection to it. Economics is not my favorite subject, but I am honestly glad I wrote this paper because it made me a more conscious consumer and I know more about how the economy works and what the future of the economy looks like.