Econ in the Movies: What "Air" Can Teach About Economic Decision-Making and Markets

Presented by: John Kruggel

Email: kruggejb@jmu.edu

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John Kruggel

Director, James Madison University

Center for Economic Education

John has over 15 years experience teaching at the K-12 level. During that time, John was named an Armstrong Teacher Educator by Indiana University, he won Indiana Economics Teacher of the Year, and was named honorary Secretary of State for his work teaching economics and personal finance in Indiana. In 2017 he graduated from the University of Delaware's Master of Arts in Economics and Entrepreneurship for Educators program.

He currently teaches principles of micro and macro economics at JMU. He is a member of the Executive Committee for the National Association of Economics Educators and won the NAEE Rising Star Award in 2023.

Agenda

- Basic Background (10 mins)
- Players as a brand (10 mins)
- Competition in the market (15 mins)
- Types of goods (10 mins)
- AP Application (5 mins)
- Check for understanding activity (5 mins)
- Closure/Q&A (5 mins)

Objectives

Teachers will:

Gain resources they can use to teach about competition in the market.

Gain activities they can use to teach about athletic brand marketing.

Gain information on types of goods in the market.

National Standards

Standard 2: Decision Making: Effective decision making requires comparing the additional costs of alternatives with the additional benefits.

Standard 4: Incentives: People usually respond predictably to positive and negative incentives.

Standard 7: Markets and Prices: A market exists when buyers and sellers interact. This interaction determines market prices and thereby allocates scarce resources.

Standard 9: Competition and Market Structure: Competition among sellers usually lowers costs and prices. Competition among buyers increases prices and allocates goods/services to those people who are willing and able to pay the most for them.

Great Resource

If you are interested in integrating video clips into your economics course, Econ Media Library is an amazing resource!

It's also extremely easy to locate, just type econ.video into your browser.

They have hundreds (maybe thousands) of clips you can use to teach econ, search by topic, show, type of media, micro/macro, etc.

Background Information

Basic Background Info

The movie *Air* is set in 1984. Nike is considered a company only known for their running shoes. They have a basketball division, but it is struggling to keep up with Converse and Adidas.

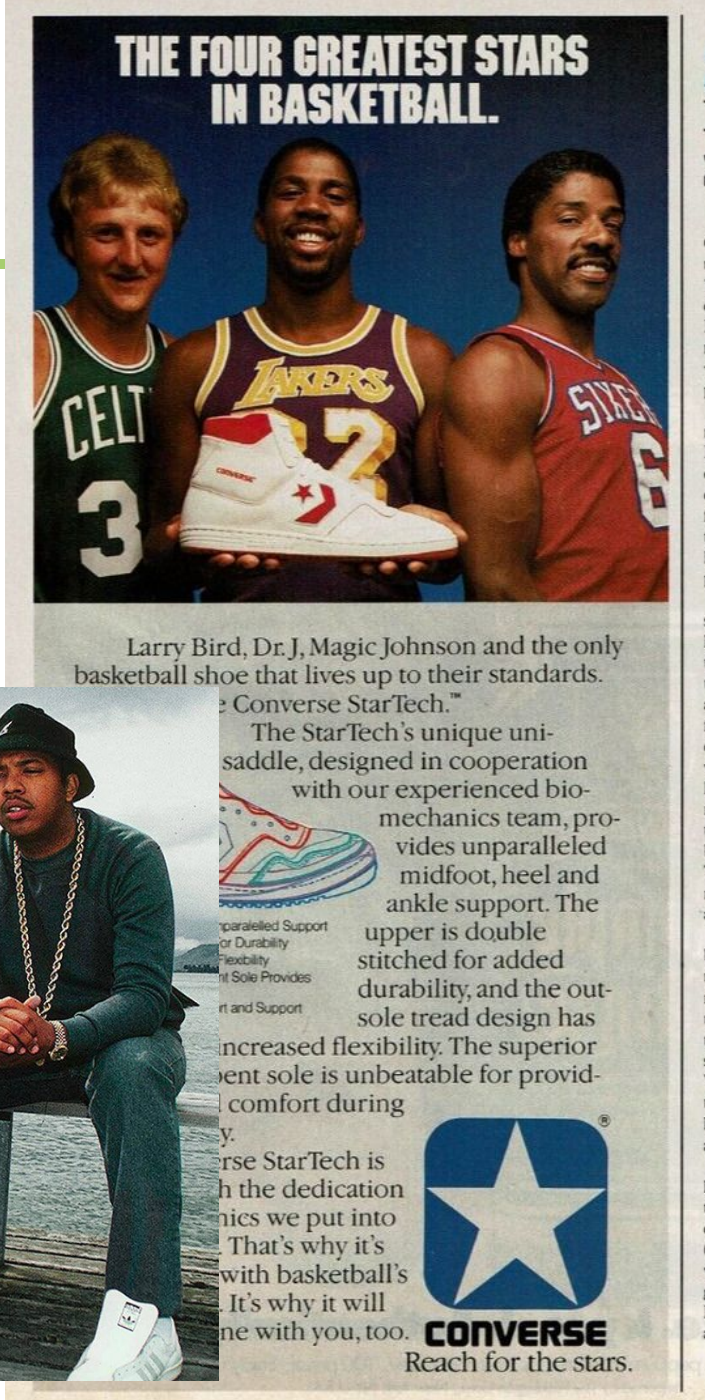
The story follows Sonny Vaccaro’s role to get Michael Jordan to sign with Nike and to convince Nike owner Phil Knight to spend Nike’s entire marketing budget ($250,000) on one player.

The resulting partnership would revolutionize sports marketing and create a brand now know worldwide.

Basic Background Info

In the 1980s Adidas had become a household name and was a highly valued brand among the key marketing demographic age group (18-24). Adidas had 50% more revenue than Nike in 1984.

Converse was an established brand and had most of the major basketball players signed to endorsement contracts.



Something to consider

Why is the 18-24 age group a prime target market for advertising?

They have a very high disposable income. They typically have jobs (sometimes very well paying) and not many bills.

Basic Background Info

MJ was a huge fan of Adidas, and Converse had a ton of money to throw at him in an endorsement deal.

Nike's sales had dropped 29% in 1984 and they had to find a way to stand out among the crowd.

Knight wrote to his board: *Orwell was right: 1984 was a tough year…After a decade of increasing sales and earnings, we saw our net income drop 29 percent.*

PACED Model (economic decision making)

MJ has a **P**roblem: *Which shoe company should he partner with?*

What are his **A**lternatives?
Nike, Adidas, Converse

Which **C**riteria should he use?
Money? Popularity? Brand identity?

How should he **E**valuate his alternatives? (which criteria are most important to him?)

Make a **D**ecision

Basic Background Info

Basic Background Info

Nike decided to create a brand focused solely on Jordan.

They eventually signed Jordan to a 5 year, $2.5 million deal.

They created an advertising campaign that would focus on Jordan as a player, but also as a brand.

Something to Consider

The Jordan Is generated over $150M in profit, however the Jordan IIs did not fare as well.

It might be because MJ broke his foot during the 1986 season and the shoes were not featured in as many games

(or maybe people just didn't like the design as much).

Background Info (TRT: 11:43)

Players as a Brand

Players as a Brand

The business model established by Michael Jordan in 1985 would be followed by players for years.

In 1988, Tinker Hatfield created the “Jumpman” logo for Air Jordans based on Peter Moore’s idea (Air Jordan III was the first to feature the logo).

Let’s see how successful other player brands have been. **Can you name the following brands?**

Players as a Brand

Players as a Brand

Remember, Nike needed the Jordan IIIs to succeed, the Jordan IIs sales started to stall.

The use of the Jumpman logo was able to revitalize sales.

Even today the Jordan brand is [tops among basketball players](#).

Jordan brand's revenue hit $4.8 billion in 2021.

Players as a Brand (TRT:1:33)

Competition in the Market

Competition (TRT: 0:29)

In 1985, Nike created a brilliant ad campaign showing the new Air Jordans and creating brand recognition.

Competition

Air Jordan II's were the first shoe priced at $100 (~$277 adjusted for inflation). The original Jordans were priced at $65, (~$187 adjusted for inflation).

Nike raised the price after the unprecedented popularity of the Jordan I's (**helped by their creative marketing campaign**)

This illustrates the role prices play in the market. Nike was operating in its own best self-interest by raising prices, however by raising prices it also sent a clear signal to the market, Charles Wheelan illustrated this best in his book *Naked Economics.*

Who Feeds Paris?

Prices are like giant neon billboards*…how does a restaurant on the Rue de Rivioli in Paris has just the right amount of tuna on most nights? When patrons start ordering more of the sashimi appetizer, the restaurateur places a larger order with his fish wholesaler. If tuna is growing more popular at other restaurants, too, then the wholesale price will go up, meaning that fishermen somewhere in the Pacific will get paid more for their tuna catch than they used to. Some fishermen, recognizing that tuna now commands a premium over other kinds of fish, will start fishing for tuna instead of salmon…****These guys don't care about the upscale diners in Paris. They care about the wholesale price of fish****.*

The Role of Prices

Nike sold $70 million worth of Air Jordan I's within two months of releasing the shoe.

Nike earned $150-$160 million from the sale of Air Jordan I's that year.

Of course, this success will act as that giant neon billboard and bring other companies into the basketball shoe market, as well as creating imitation among existing shoe companies.

Jordan I’s (the original)

These are the Jordan I’s that came out in 1985.

My Fake Js (profit leads to competition)

These are the Avia 830s that came out in 1988.

Jordan as a Brand

Other companies would follow Nike's lead and make Jordan a focal point of their brand. Probably the most well known example is the Gatorade commercial featuring the "Like Mike" song.

Types of Goods

Jordan as a Luxury Good

The price point of Air Jordan II's AND the increase in sales that occurred regardless of the increase in price indicate that consumers value the Jordan Brand as a luxury good.

You can see this even with Air Jordan resale value on sites like StockX. Original Jordans can sell for a much higher value than other limited edition brands.

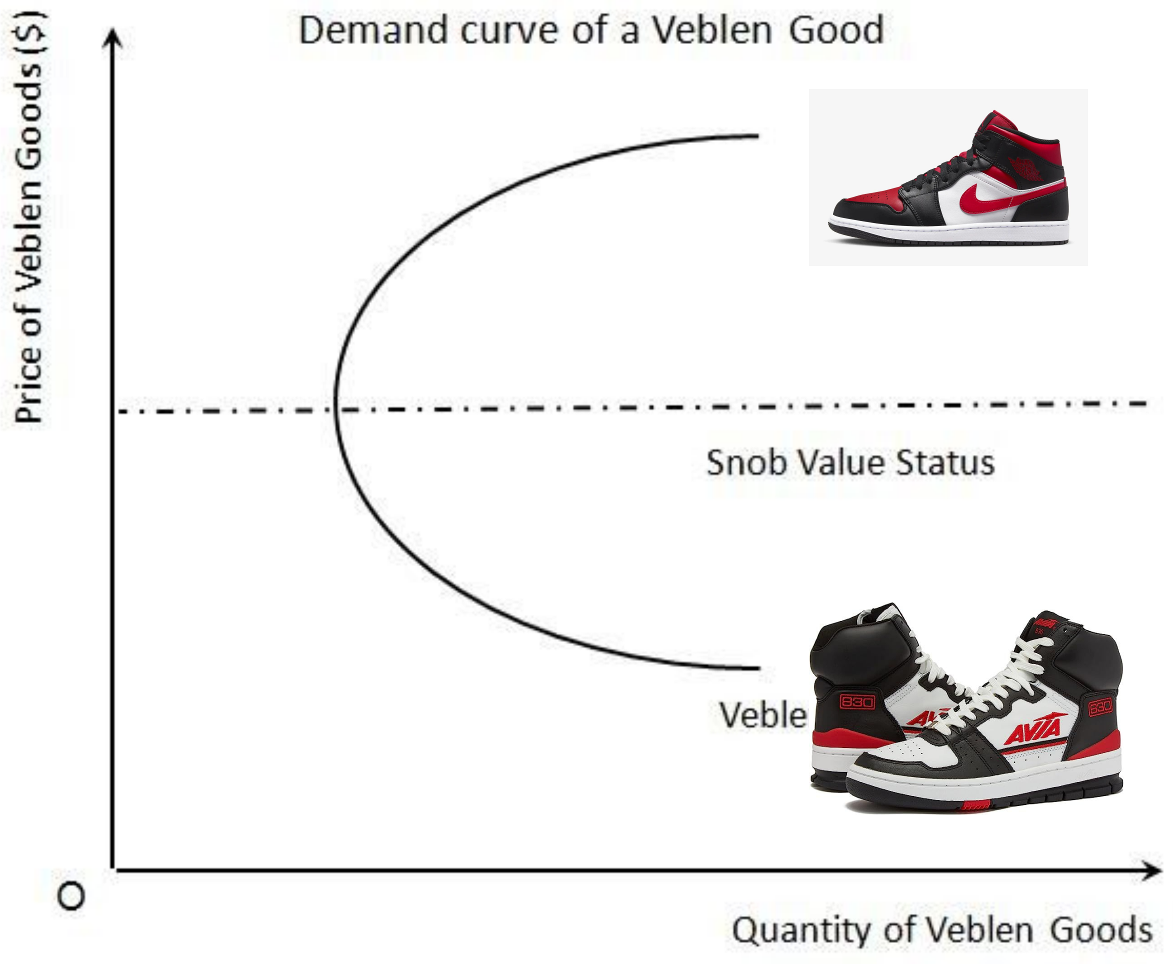
Business Insider has a great, quick video in their So Expensive series discussing this.

Veblen Goods

Veblen goods are goods where *quantity demanded increases as the price increases*, because of its exclusive nature and appeal as a status symbol.

Veblen goods have upward sloping demand curves.

Veblen goods are generally distinguished by being high-quality, highly coveted goods.



Veblen Goods

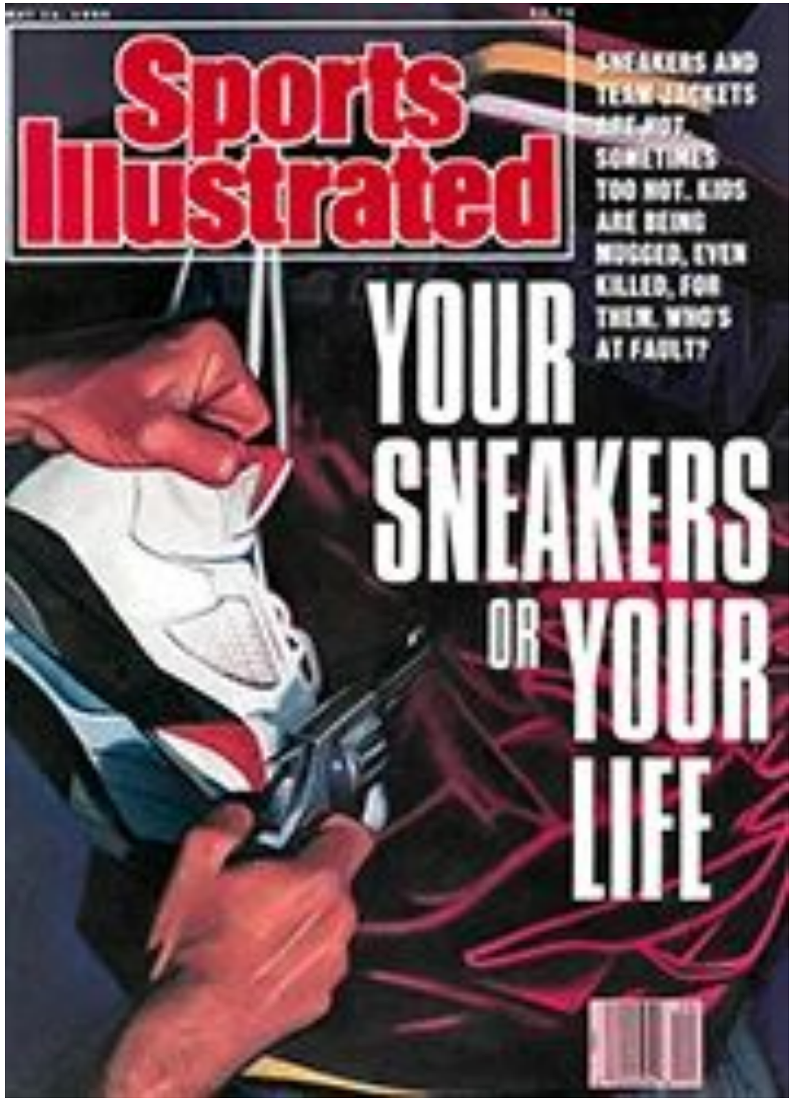
Veblen goods illustrate **conspicuous consumption** (a term coined by Thorstein Veblen in the late 1800s)

Essentially, conspicuous consumption is when people purchase something as a way to display wealth or to illustrate their status.

Downside of Veblen Goods

The high price of Air Jordans has led to some people robbing others for their shoes.

In 1990, Sports Illustrated ran a story on several murders committed over shoes (not just Jordans) as well as other athletic clothing.



Stephon Marbury's shoes

In 2006, Stephon Marbury launched a basketball shoe (called the Starbury's).

The Starbury One retailed for **$14.98.**

Marbury grew up during the height of Jordan mania (he was 8 in 1985).

He, like many people, could not afford the shoe. So he wanted to come up with an alternative.

Starbury's

Stephon Marbury paired with the clothing store Steve and Barry's to create his shoe line.

Steve and Barry's were known for selling clothes at a very low price, taking a VERY small mark-up on their clothing. They were interested in creating a basketball clothes and even a shoe, but needed to find someone willing to do it cheaply.

Original sales were very good, **they sold ~4 million pairs of the shoes** (Stephon wore the shoes throughout the NBA season, much like Jordan).

Starbury's

The role of prices will come into play with the Starbury.

People became concerned about the quality of the product. **"How can these shoes be any good if they are so cheap?!?"**

Price signals: prices send signals to buyers as well as sellers. Prices help influence buyers decision making.

Unfortunately for Starbury, the 2008 financial crisis caused Steve and Barry's to file for bankruptcy. They were the sole producer and seller of the shoes.

Starbury's are currently for sale AGAIN for ~$20

Sidebar

The new Ethics, Economics, and Social Issues collection on EconEdLink is currently being rolled out.

There is a new lesson being developed on the economics of fast fashion that would tie in nicely to this topic. The lesson should be posted by December of 2023.

Application to AP?

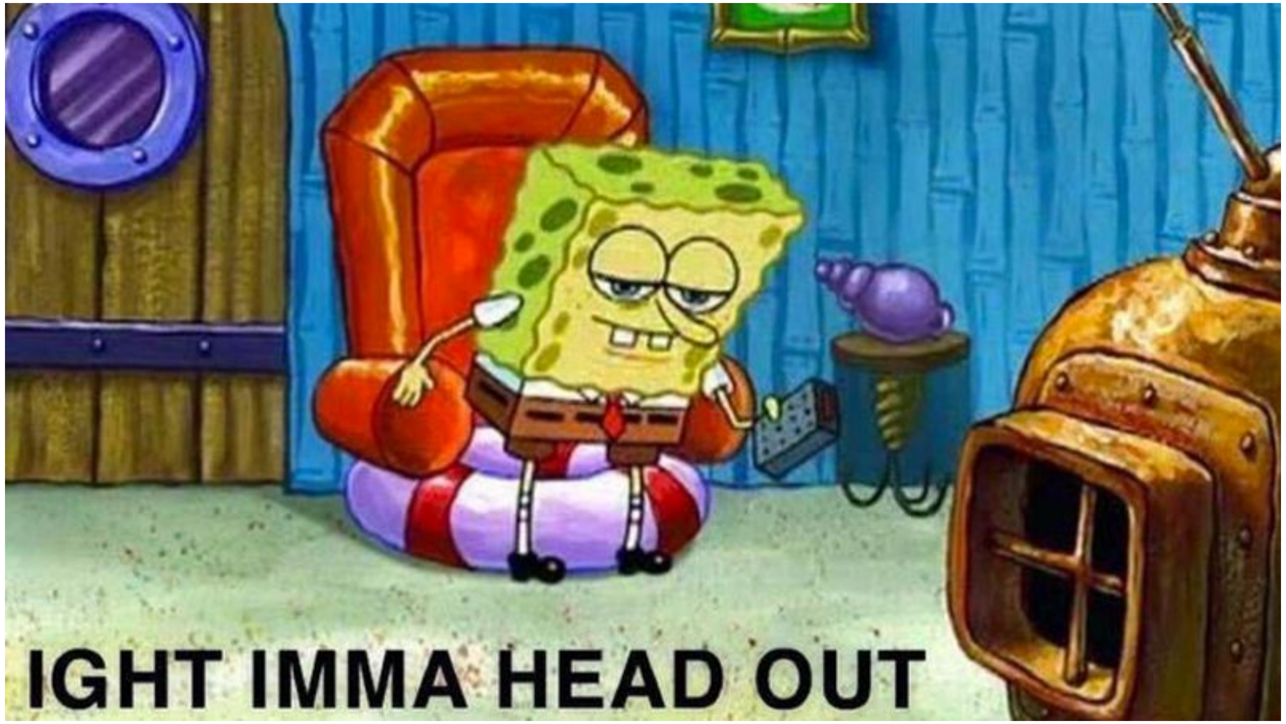
Shut Down Point

One major theme in the movie is the possibility of Nike shutting down their basketball shoe division.

You could use this to discuss the microeconomics topic of shutdown point vs exiting the market.

Shut Down Point

In competitive markets, **if firms are not earning enough profit, they may have to decide to either shut down production or to exit the market completely.** You can illustrate this via the cost curves.

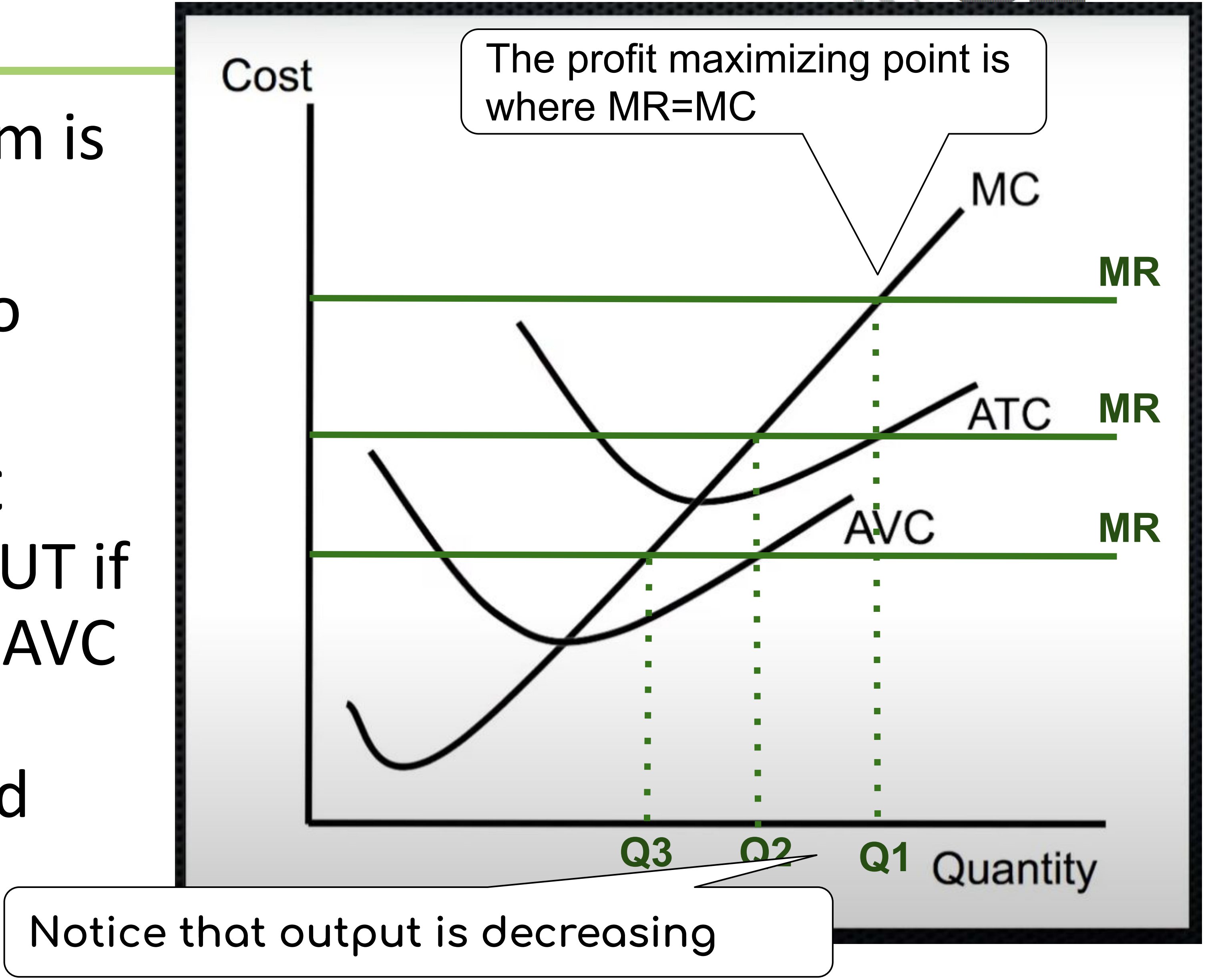


Let's break that down a bit

If price is above ATC the firm is making a lot of profit.

As price decreases, so to do profits.

When price falls below ATC firms start to take losses. BUT if firm's prices are above the AVC curve those firms are still covering **some** of their fixed costs.

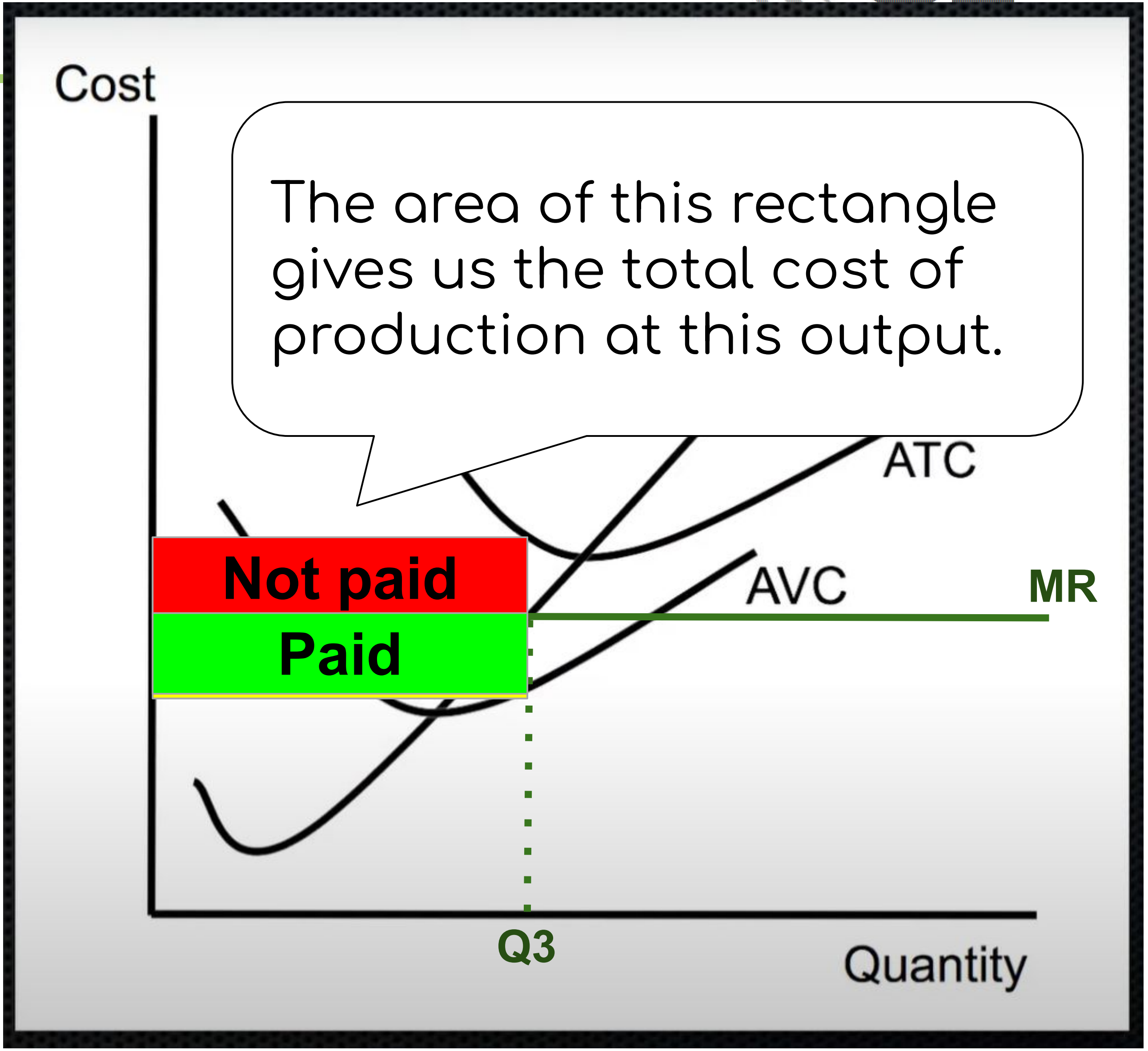


Let’s break that down a bit

So, let’s look at this a little closer.

IF price is in between ATC and AVC, firms can still cover some of their fixed costs (rent, interest on loans, etc.)

In the **short run** they can pay off SOME of their fixed costs at this price. **BUT** they will exit in the long run (Nike in the movie)

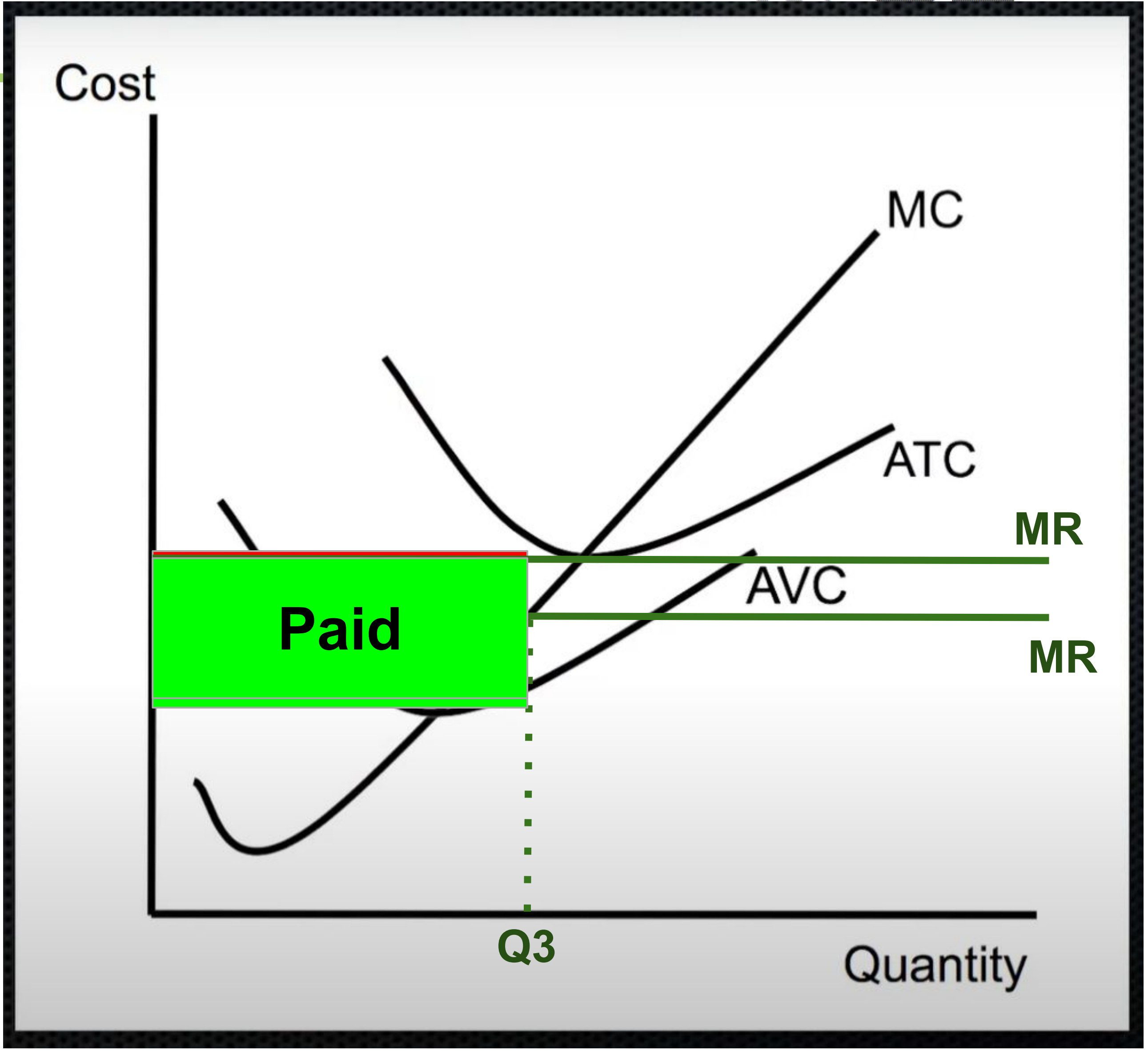


Let's break that down a bit

So for Nike's basketball division to stay profitable, they need their marginal (or additional) revenue to increase.

Their partnership with MJ was a chance for them to increase marginal revenue.

And it was a way to keep them from having to exit the market.



Check for Understanding Activity

Activity

Here's a way to check for understanding/ensure for transfer of knowledge.

Either:

1) Have students find a product that an athlete can endorse.

–or–

2) Create a list of products for students to choose from.

Then, either:

3) Have students find a popular athlete that partner with.

–or–

4) Create a list of popular athletes they can choose.

Real world example

In 2022, St. Peter's were the Cinderella of the March Madness Men's Basketball tournament. Star guard, Doug Edert, made news when people found out he had never eaten a chicken wing. The NEXT DAY he signed an NIL deal with BWWs.

Possible list of athletes and products:

You can go funny:

Anthony Davis + some waxing brand

Calvin Ridley + Draft Kings

Calvin Ridley on gambling that led to NFL suspension: 'In a dark moment, I made a stupid mistake'

Tom Brady + Hunts tomatoes

Why Does Tom Brady Not Eat Tomatoes? The NFL Player's Strict Diet, Explained

Or more serious:

Nikola Jokic + Reebok

Patrick Mahomes + Nike

William "Amnesiac" Barton + Nvidia

Finished product

Have students determine whether the new endorsement deal will impact supply or demand and have them draw that impact on the supply and demand curves.

Have them identify which determinant of supply or demand is at play. (**change in consumer tastes (demand) should be the most common answer**)

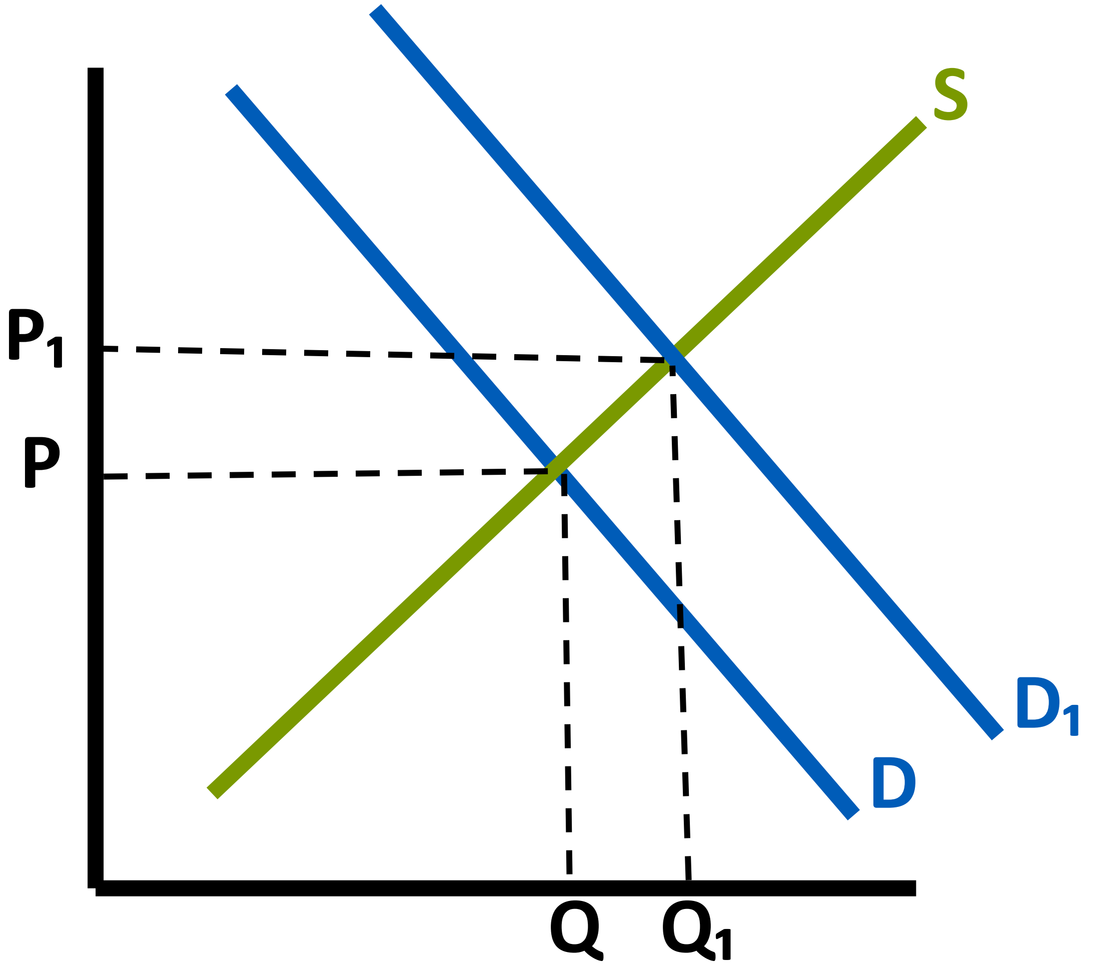
Have them discuss the impact on price and quantity demanded for the product, again showing it on the supply and demand curves.

Possible extension: Have them apply elasticity of demand to their curves and equilibrium. (availability of substitutes, necessities…)

What does this look like?

Change in consumer tastes with products like Air Jordan, increased overall demand for the product. (IRDL)

What impact will this have on the price and Qd for the product?



Finished product

Possible extension: Have them apply general price elasticity of demand concepts to their curves and equilibrium price and quantity.

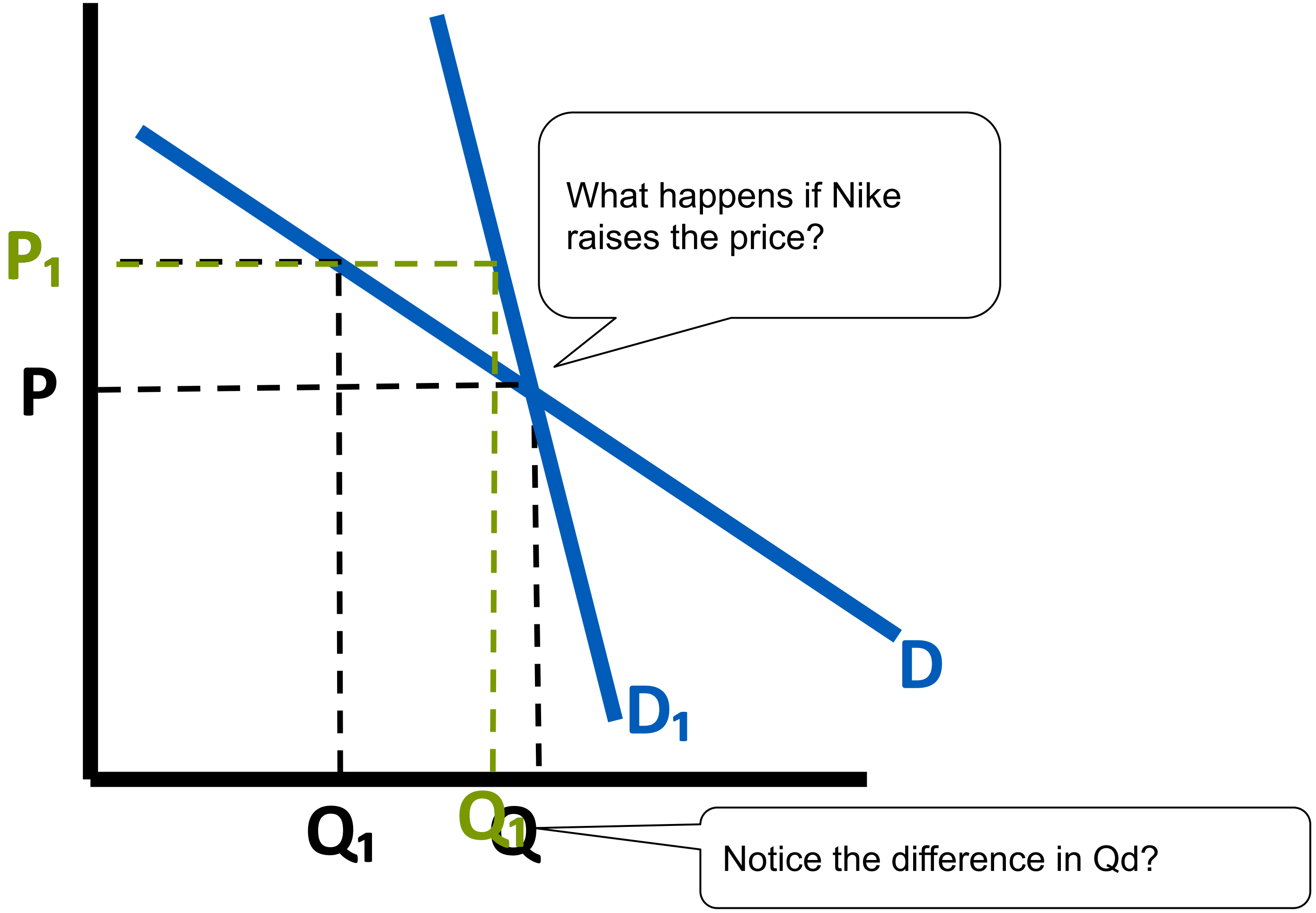
Factors influencing price elasticity of demand students should focus on:

- **Availability of substitutes:** Are there any substitutes for Jordans?
- **Necessities vs. luxuries:** Are Jordans necessities or luxuries?

What does this look like?

IF students make the argument for inelastic demand caused by a lack of substitutes (Avia's 803 and my humiliation), the demand curve would become more vertical (capital I for inelastic demand).

What impact might this have on price and Qd?



Wrap-Up Activity

After completing the activity, ask students:

“Why are producers willing to spend so much money on advertising?”

Nike spent their entire advertising budget (for basketball shoes) in 1984 ($250,000, ~ $745,000 in 2023) on ONE ATHLETE.

Students should be able to answer the question using the graphs they just drew.

Questions?

My contact information is on the next slide.

Please feel free to contact me if you have any questions about this content or the ideas for implementing it in the classroom.

Thank You

John Kruggel
kruggejb@jmu.edu
@kruggelnomics on Twitter

References

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