Why Do People Support the Underdog? 
Loss Aversion and Sports Fans

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ABSTRACT

The choice to be a sports fan may seem irrational in many circumstances, especially when considering fans of teams that are less successful than average. The large amount of evidence showing people are loss averse may make the decision to be a sports fan seem even more irrational. However, this paper presents a model of reference-dependent preferences that predicts being a sports fan, even of an underdog, is an optimal decision. The model predicts it can be optimal to be a fan of a less successful team, even if the individual is loss averse, only cares about game outcomes and believes the team to be less successful than average.

Keywords: Loss Aversion, Reference-Dependent Preferences, Sports Fans, Sports Teams, Underdogs

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INTRODUCTION

Sports fans spend a considerable amount of time and money watching, discussing, gathering information and collecting memorabilia of their favorite teams. According to The Nielsen Company, on October 13, 2014 more than 12.7 million people tuned in to watch a week-six regular season Monday Night Football game between the San Francisco 49ers and the St. Louis Rams (Bibel, 2014). This type of viewership has helped the NFL receive a guarantee of $27.9 billion from broadcasters from 2014 to 2022 (Clark, 2012).

As a fan, people experience incredibly satisfying moments of joy and incredibly dissatisfying moments of disappointment. Smith (1988) presents a sociological perspective as to why being a sports fan is beneficial to individuals and society. For individuals sports may provide a haven, which is far more easily understood than events in society. For example, the results of a sports contest are unambiguous, win, lose or draw. For society sports may create an environment of social interaction, which can foster social values. However, when the decision to be a fan is analyzed through an economic lens, it becomes less clear. For example, why would an individual choose to be a fan of a less-than-successful team? It may be the case that individuals are blind supporters and believe, irrationally, that their team is better than they actually are. However, many sports fans are fully aware that their favorite team is less-than-successful, yet they still support them. There are possible psychological and sociological factors that may generate this behavior, such as identity, geographic location and sanctioned display (Loy, 1981; Smith, 1988). For example, sanctioned display is “our need to represent and identify with heroic actions and characteristics that are valued in the broader society” (Smith, 1988). However, as Smith (1988) notes, fans “accept the illusion that the result of the contest matters.” Furthermore, fans have an emotional stake in the result of a game (Smith, 1988). Therefore, is being a fan an economically optimal, utility-maximizing, decision? Similarly, why do people often choose to support underdogs?

The question becomes even more interesting when you consider the significant evidence that people are loss averse (Camerer, 2005; Genesove and Mayer, 2001; Kahneman and Tversky, 1979; Novemsky and Kahneman, 2005; Tom, S. M. et al., 2007; Tversky and Kahneman, 1992). Loss aversion is the phenomenon that losses affect the utility of an individual more than an equal sized gain. There is evidence that sports fans are loss averse and the effects have serious implications. For example, Card and Dahl (2011) find that upset losses in professional football lead to an increase in the rate of at-home violence of ten percentage points. However, if people are loss averse, why is anyone a sports fan? This was precisely the question asked by an individual on Dan Ariely’s blog (Ariely, 2014). Ariely’s response was that people are fans because of three main reasons. First, people may be fans because friends, family and surroundings
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