

The NFL Draft: A Put Option Analogy

Abstract:

The National Football League (NFL) instituted a new Collective Bargaining Agreement (CBA) and has a salary schedule that is similar to the National Basketball Association (NBA) salary schedule. It is a fixed salary system which allows me to use options model to examine college players' incentives to enter the draft. Previous paper by Arel and Tomas has shown the rationality of entering the draft for NBA college players; this paper will apply a modified model to NFL players, as well as updating results for NBA players using new data. Furthermore, a comparison of the two will be shown and studied. The draftee selling his remaining collegiate ability is similar to selling American style put option early. Actual draft data and mock draft data are used for author to study early entry for college juniors and seniors. The results will be shown in tables and I am still analyzing the data.