

**The Implications of Signing a Professional
Baseball Contract As a High School Senior
As Opposed to Attending College**

Senior Honors Thesis

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Abstract

This paper is intended to address the situation facing a high school graduate whose name is called in the annual Major League Draft in the month of June. The work will begin with an introduction that states the problem at hand along with background information. It will then progress into an overview of facts and financial figures about minor league baseball and about a college education. Following these sections will be the main emphasis of the paper: detailing the dilemma of whether or not to sign a professional contract without attending college. This will be done by showing the expected present values of both options for the players based on the round in which they are drafted along with the potential investment of the signing bonuses and salaries. Some other possible pros and cons of signing a contract immediately will also be examined. This predicament will be considered from the perspective of five different cross sections of draftees. Groups will be divided into players drafted in the following rounds: first, second through fifth, sixth through fifteenth, sixteenth through thirtieth, and thirty-first through fiftieth. A look at the fortunate few who reach the majors will follow this section. Then, a few players who were faced with this decision will be addressed by considering their choice and current status. Finally, conclusions and recommendations about the signing decision will be made.

Introduction

The Major League Baseball draft which occurs annually in early June is without a doubt a joyous occasion for all those players talented and fortunate enough to find themselves selected by one of the twenty-eight teams. Having one's name called in any of the draft's fifty rounds signifies a reward for all of the hours of diligent work and practice that a high caliber athlete most likely would have endured by the age of eighteen. For many players and their families, though, being drafted begins a difficult period of time in which several crucial questions must be answered.

The source of the aforementioned difficulty can be found in this problem: weighing the advantages and disadvantages of immediately beginning a professional career against those of sharpening one's baseball skills while also receiving an education at the college level. Although this decision alone can cause sufficient confusion, the constant pressures of player agents, team scouts, and college recruiters and coaches often further dilute the key issue of what is best for each particular player and his family.

Facts of Minor League Baseball

Over a fifteen year period beginning in 1975 and ending in 1990, 44.47 % of high school players who were drafted came to the conclusion that bypassing a college career and education in favor of the professional ranks was the proper choice (Simpson, 1990, p. 6). Due to the fact that only four of the 2593 high school players drafted during this period of time found themselves being promoted directly to the big league, there exists about a 99.85 % chance that a player will spend an amount of time in professional baseball's minor leagues before reaching the top (Simpson, 1990, p. 7). Throwing in the fact that not one senior has gone directly from hometown hero to major league rookie since 1978 lends even more support to the claim that organizations do not want to rush their top players along as quickly as they might have in the past. Taking these figures into account, a player thinking about choosing professional ball over college might make a more informed decision knowing some facts about the minor leagues.

Five levels of professional minor league baseball exist in the current system. Single A ball contains three separate levels of its own: low (short season) A, middle A, and high A. Double A and triple A round out the five divisions. The average high school signee who eventually reaches the major league will spend 6.2 years toiling in the minors (Simpson, 1990, p.9). Unless a player is chosen in a round high enough to merit a substantial signing bonus and good odds of reaching the majors, immediate professional baseball would not be considered a lucrative venture by most

standards. Only when a player reaches double A or triple A does he begin to earn money which might be sufficient for investment purposes if the player is single or to begin support of a family if the player is married. At the lower levels of the minors, compensation is paid out to the players in modest sums.

The entry level into professional baseball for the vast majority of high school seniors who choose to forego a college career is rookie ball, otherwise known as short season low A. The "short season" name comes from the fact that the season's games do not begin until the middle of June after the draft has been completed. This allows most players willing to sign a gratuitous period in order to complete their respective negotiations.

The low A rookie season lasts from its inception in June until its conclusion in early September. Several leagues of this level exist, with teams playing approximately seventy games apiece. During this nearly three month period of time, players can expect to be paid on a monthly basis at a preset rate. At the present time, that previously mentioned rate is \$850 per month paid in two installments on the first and fifteenth of each month (Major League Baseball Players' Association). Due to the fact that no compensation is received by players during the off season at the single A level, payment is pro-rated to the number of days in the month that the player is employed during months that are not fully consumed by baseball (Minor League Uniform Player Contract, 1992).

Players can expect to find a rather difficult set of circumstances awaiting them in rookie baseball. Since the monthly salary is somewhat small, players are often forced

to live with several roommates in modest accommodations. Leagues may field teams which lie several hours apart, thus requiring long day and night travel. Short season is the lowest level of professional baseball, and its travel conditions reflect the lack of finances that most major league clubs allow to their respective low A subsidiaries. Players usually are placed in hotel rooms in groups of four after spending countless hours on buses that are crowded and often without air conditioning or bathroom facilities. Players do receive from the club a small per diem amount of money for all days that the team is playing away from its home park. The current minimum amount is fifteen dollars at the rookie level (Minor League Uniform Player Contract, 1992).

The next step on the progression to the big league for most professional baseball players is one of the middle A leagues. Seasons at this level are much greater in duration than are those at the low A level. In March, training camp opens for most players competing at this level. After spending about three weeks practicing and playing exhibition contests, the official championship season begins in April. Middle A schedules contain 144 games that are played from April until late August when each respective league's playoffs begin.

Conditions for players at the middle A level are not much different than those at low A. Team funding is still paltry, resulting in continuing quadruple-occupancy in hotels on road trips. The per diem amount of fifteen dollars also goes unchanged. The most notable change for the players is the fact that the season, including training camp, lasts for over six months. While this creates a much greater mental grind for each individual athlete, it also results in the receiving of approximately six more

paychecks per year than a low A player receives. Middle A players are paid a flat salary of \$950 per month (Major League Baseball Players' Association), and the disbursement of checks remains on the same system as is utilized in low A baseball.

One step up from middle A baseball is the high A level. A player's season duration and schedule at this level do not differ greatly than those of middle A players, beginning with spring training in March and ending in August or September some 144 to 160 games later. The largest change between middle and high A baseball is the money available to most teams. While many major league clubs will control several subsidiaries at the low A and middle A levels, most teams have only one or two high A clubs. This results in the ability to travel more comfortably with respect to the mode of transportation and the type of accommodations. Minimum per diem allowances remain at the fifteen dollar amount (though most teams pay more at this level), and salaries jump to \$1100 a month received on a semi-monthly basis (Major League Baseball Players' Association).

Double A baseball is the next level to be mastered following the single A leagues on a player's way to the major leagues. Double A's season is yet another falling into the 144 to 160 game length spanning a period of about six months. Players are treated well without being pampered during a stint in double A. Stadiums are usually larger and more modern than their single A counterparts, and this is a direct reflection of more money being available to the clubs. Each big league club possesses only one team at the double and triple A levels, thus allowing them to focus on their respective farm clubs. While playing on the road, accommodations are double occupancy, and

the per diem minimum allowance is twenty dollars. Salaries increase by about 40% and become slightly more flexible when a player reaches double A, falling somewhere between \$1500 and \$1650 per month (Major League Baseball Players' Association). The amount to be paid is determined by each individual organization. Players also have a choice of the way in which they will be compensated for the first time. The bimonthly system remains intact during the season, but players may elect to receive smaller checks each payment period in order to stretch their salaries over the entire calendar year as opposed to only being paid while playing.

While a few minor leaguers leap directly from double A into the major league, most must move through at least one triple A season. For the most part, triple A players are treated very well. Clubs are often located in moderately large cities capable of generating quality crowd support, and facilities and travel arrangements are first rate. The players' per diem money rises to thirty dollars, and salaries again see a healthy increase. Just as in double A, clubs are given freedom to determine the amount that they wish to pay players of their triple A affiliates. Salary amounts can range anywhere from \$1800 to \$2000 per month (Major League Baseball Players' Association). Players also keep the option of spreading payments over the calendar year or being paid strictly during the season.

Facts of a College Education

For the vast majority of the approximately 55 % of baseball players who elect not to sign after being drafted in the first June following their high school graduations, a college baseball career and education most likely await. While these years allow the player to mature mentally and physically with respect to baseball, they also provide the person with a college degree that will remain long after his athletic endeavors have come to a close.

It is a most safe assumption that a high school baseball player whose skills allow him to be drafted by a professional organization also will be offered an athletic scholarship by one or more collegiate institutions. In this day and age of non-revenue sports (most likely including baseball) in intercollegiate athletics, though, a scholarship does not necessarily cover all costs of an education. Only 11.7 scholarships are available to a baseball team which will likely have around thirty members. The top three to five players might be receiving full or nearly full scholarships while the next twelve to fifteen players usually divide the remaining six to seven scholarships amongst themselves. The final members of a college team consist of invited walk-ons and walk-ons taken from try-outs each fall.

A freshman college baseball player who did not sign when drafted will most likely begin his career on a 60% or better scholarship with the opportunity to increase that amount each year that he plays for the school. While this is a substantial amount of aid, some costs might fall back onto the player and his family. The size of these

excess costs can differ greatly depending on the size and type of university involved. Since scholarship athletes are not allowed to hold jobs during their championship seasons, the money required for whatever might be uncovered by the scholarship must come either from need-based financial aid, a scholarship program of a non-athletic nature, or family support. Although family support is not feasible for everyone, financial aid is often available to those players whose family is unable to give adequately to cover the expenses not included in a partial athletic scholarship.

The athletic scholarship is providing an education to those players receiving them that is a more valuable tool than it has ever been in the past. It is becoming increasingly important in the modern workplace for a potential employee to possess a college bachelor's degree at the bare minimum. For players who feel that college is the correct route, receiving an education allows them to increase their own marketability in the most likely event that their baseball career will conclude in the minor leagues without ever reaching the majors.

The first issue facing a college graduate is securing employment worthy of his or her credentials. Projections released by the Bureau of Labor Statistics concerning the job market between the years of 1992 and 2005 show an average of 1.4 million potential entrants into the labor force each year while only 1.05 million jobs requiring college educations are expected to be available (Shelley, 1994, p. 9). Based on these figures, it is obvious that competition for these positions will be fierce among recent college graduates. These statistics also indicate that, due to this competition, approximately 25% of these graduates will be forced to accept employment not

requiring a college degree. This fact does not bode well for those workers possessing only a high school diploma since they will more often than ever find themselves going head to head with college graduates for positions once held mostly by employees without a college education. The Bureau of Labor Statistics calculated an 8% unemployment rate for high school graduates in 1992 compared to a 3% rate for holders of a college degree (Shelley, 1994, p. 5). It can be logically inferred based on the aforementioned statistics that the gap between the numbers will grow between 1995 and 2005, placing even more importance on the possession of a college education when seeking employment.

The paramount importance of earning a college degree in order to find a job also carries over into the potential earnings one can expect with the degree as compared to what is often earned without a college education. According to a study performed in 1993 by the Economic Policy Institute, workers in possession of college degrees earned on the average 58% more income than their counterparts whose education ended in high school. That represents a substantial increase from the 38% wage gap between these two cross-sections of employees that existed in 1979 (Greenhouse, 1993, p. D1). The situation at hand does not exist because college graduates are earning much more than they traditionally have, but because high school graduates are earning much less than in the past. College educated males falling between the ages of 25 and 54 realized a 7% increase in net income during the decade beginning in 1979 and ending in 1989. Although this increase does not appear tremendous, it

compares most favorably with the 11 % drop in earnings that this group of men with a high school education felt during the same period of time (Kristof, 1992, p.D7).

When examined on a monthly, yearly, and lifetime income basis, the outlook for workers without a college degree continues to look bleak when placed up against that of the degree holder. The 1992 average earnings of over age 25 male employees in possession of only a high school education was \$2156 per month and \$28,043 per year as determined by the U.S. Department of Education. In comparison, the same age group of college graduates earned \$3713 monthly and \$44,554 per annum (Kristof, 1992, p. D2). To further illustrate this discrepancy, a Census Bureau report released on July 21, 1994 indicated that a high school graduate's average lifetime earnings will total \$821,000 while those of a person in possession of some sort of bachelor's degree will reach \$1,421,000. Taking the illustration a step further, a person holding a professional degree should see his or her lifetime earnings reach an amount near \$3,013,000 (Lee, 1994, p. D1). Consideration of these comparisons might make a college baseball career and education a more attractive option to a high school player who is not sure whether to sign professionally or attend college.

The Signing Question

Having one's name called in the Major League Baseball Amateur Draft each June is a reward for any college or high school baseball player. The respective decisions facing the college draftee and the high school draftee, though, are most different. For the college draftee, most likely a junior in eligibility, this selection in the draft represents the last time that he will have any bargaining power with a club since he will be a senior during the next draft. This makes the choice much simpler for the college player, often becoming only a question of player and organization reaching a signing bonus amount and contract that are agreeable to both parties. In the case of the high school player who is chosen in the first round, the choice is not quite as clearly defined. Many non-financial factors enter the equation which are not evident for a college player. A high school draftee might be influenced by family financial status, ability to compete in other sports, or insecurity about personal intelligence. Regardless of the factors involved in the decision, it is most likely that finances will not be the single consideration for the drafted high school player.

For the purpose of comparing the financial situations of players falling into different categories in the draft based on the number of the round in which they are chosen, two different investment rates will be utilized. The two investment strategies will be a risk-free investment rate, represented by a five year average of the three month T-bill, and by an index fund return, represented by a ten year average of the S&P 500. As reported in the Markets Diary section of the Wall Street Journal in the

October 20 week of each year, the 1991-1995 average T-bill rate is 4.25 % while the 1986-1995 S&P 500 rate is 11.06 %. For the investment rate in the expected present value calculations, an average of these two rates, 7.655 %, will be utilized, and the T-bill rate will serve as both the discount rate and the growth rate.

The expected present value calculations for each specific draft category of both signing immediately and attending college can be found in tables 2-11 of the appendix with the final results located in table 1. Each table begins by designating its respective draft category and signing decision at the top of the chart. The far left columns indicate player age and time into the player's career. In the tables where the decision is to sign a professional contract immediately, the signing bonus is received at time 0, and the first years of the calculations show actual minor league earnings along with the value of those earnings at time 0. The next columns indicate that one of two things has occurred. The left side column entitled "No Majors" indicates the percentage of draftees who never compete in the majors, and it depicts their earnings. The salaries they receive in the minors trying to reach the majors are summed underneath the actual amounts at their time 0 totals. The right hand column with the heading "Majors" shows the percentage of players reaching the majors along with future earnings for those players. The average major leaguer spends 6.8 seasons playing at the highest level, and this column reveals the value of his average earnings in the majors at time 0 (Martin, 1994, p. 12). Both sections follow with an illustration of regular job earnings at the conclusion of the baseball career. The players who do not reach the majors are given the average salary of a high school

graduate, \$28,043, carried out until retirement at age 65. Those who do make it are allotted an extra 25 % on top of the normal amount due to increased marketability gained by being a major league athlete. The total of these annual salaries at time 0 is indicated under the amount of each year's pay. Combining the signing bonus, minor league salary, regular job salary, and either the additional minor league money or the major league salary (depending on whether the player reaches the majors) produces a sum of all earnings figure for each column. Multiplying these sums by the probability of each respective occurrence (located next to the "No Majors" or "Majors" column headings) creates the PV1 and PV2 amounts. Adding these two numbers gives a player his expected present value of signing a professional contract, located at the bottom of each table.

The tables depicting the decision to attend college are slightly more complicated than those of signing out of high school. The top of the page shows time 0-3 with earnings of 0. These are the college years. Under this, separate left and right hand columns can again be found, and they are entitled "After College". On the left is a column assuming that the player is drafted after college in a similar or higher round than he was chosen after high school. The right hand column assumes that the player falls to a lower position in the draft. The chances of each of these scenarios are indicated in parentheses. Both columns begin with actual and time 0 minor league salaries and their totals. They then move to the same situation as previously occurred in the tables showing immediate signing. Each column experiences its own internal split under the headings "No Majors" and "Majors". The earnings of career minor

leaguers again are on the left while the major leaguers are on the right. Each player's time 0 baseball earnings are directly under the actual salaries. The players who fall short of the majors are given the average college graduate salary of \$44,554 per year while those who make it are again given a 25% increase over that number due to endorsement potential. These salaries are carried out to age 65 and then discounted back to time 0. Signing bonus, baseball salaries, and regular job salaries again constitute the sum of earnings cell. Each sum of earnings cell is followed by a cell showing that same sum of earnings amount multiplied by the percentage of players applying to that number (indicated beside the "No Majors" or "Majors" heading). These two amounts in each column are then summed and multiplied by the percentage of players falling into their respective columns (indicated at the top of each column beside either the "Rounds" or the "Later Pick" heading) to attain the PV3 and PV4 figures.

Located under the left hand column in tables 3,5,7, and 9 and in the right column in table 11 are the figures for the player who chooses to attend college and is not drafted after his collegiate career. He is given the average college graduate annual salary until age 65 when he retires. The sum of these salaries at time 0 is then multiplied by 11% to attain the PV5 figure. This is because 11% of players drafted out of high school are not chosen again after college (Simpson, 1990, p. 20).

At the bottom right of the tables showing calculations for players attending college can be seen the sum of the PV3, PV4, and PV5 amounts. This is in the form of the expected present value of attending college.

Table 1 of the appendix shows the final PV's and the expected present value (EPV) of signing for each draft category at the top of the chart. These are followed by the same numbers for each category based on attending college. The final row on the chart indicates the most crucial numbers of the entire present value analysis. These are the EPV's of signing minus the EPV's of attending college. Each single amount allows a draftee falling into any of the categories to see one number encompassing bonuses, baseball salaries, and regular job salaries factored in with his chances of reaching the majors based on previous players in a similar situation. A much more informed signing decision can be made with this information.

Some additional numbers that could assist a player with his decision are potential investment amounts. The United States Department of Labor Consumer Expenditure Survey conducted by the Bureau of Labor Statistics provides a figure for a baseline amount of the after tax bonus and salary available for investment purposes. The 1991 survey concluded that single males falling into the highest income bracket have average annual expenditures of 76.09% of income after taxes, leaving 23.9% available for potential saving or investment (Consumer Expenditure Survey, 1993, p. 174). Single males who earn \$30,000-39,999 per year have 8.61% of disposable income available for investment, while those falling into the \$20,000-29,999 have only 2.41% to save (Consumer Expenditure Survey, 1993, p. 174). Those earning less than \$20,000, on the average, spend more than they earn. Another possible beginning point for investment comes from The Statistical Abstract of the United States, which shows that over a four year period from 1990 to 1993, the average

American set aside 4.575 % of personal disposable income for saving. It is highly possible, though, that a player receiving a six-digit lump sum does not immediately need 76% of the money to subsist and is not representative of an "average" American. Due to this fact, other investment options for the first round draft choice will be considered along with the previously mentioned baseline figures. Examining the potential investments of the draftees at the risk-free and index fund rates will be broken down into amounts based upon the figures attained from the government publications along with two arbitrary amounts. It is very possible that a player will not instantly need a large portion of his bonus, and thus could invest a much larger amount than 23.9%. Therefore, investment sums of 50% and 75% of the after tax signing bonus will also be included.

The aforementioned investment amounts placed in funds earning either the risk-free T-bill rate or the S&P 500 index rate over four years can be seen for each draft category on page 12 of the appendix. The after tax signing bonus available for investment in each draft category is shown above each set of amounts. Investment amounts are based on the column headings, beginning with the Statistical Abstract and Consumer Expenditure Survey figures, and ending with the two arbitrary amounts.

The First Round Draft Choice

The decision facing one of the fortunate twenty-eight players finding themselves chosen in the first round of the Major League Baseball Amateur Draft each June is academic in many cases. For the college player, this opportunity represents the largest signing bonus he will ever be offered. The only question remaining in his mind most likely involves the size of his signing bonus. For the high school senior chosen in the first round, the size of his signing bonus is also important for the immediate choice. In the late 1980's and early 1990's, the signing bonuses of high draft picks grew at a rapid pace, causing these players to consider potential first round money three years down the road when they could be drafted as college juniors while deciding whether or not to sign a professional contract immediately after high school. In 1989, signing bonuses for first round choices averaged \$176,239.13 with the Baltimore Orioles' number one overall pick, Ben McDonald, receiving \$350,000 (Simpson, 1990, p. 296). Just two years later, Oakland's Todd Van Poppel, the first overall choice, saw his signing bonus rocket upwards over 250% to \$1,250,000 while the average first round pick settled for an increase of around 125% over the 1989 average to \$396,229.81 (Major League Baseball Players' Association). In the 1993 draft, first round choices again saw their fortunes increase by a sizable margin over the 1991 numbers. Number one pick Alex Rodriguez of the Seattle Mariners negotiated fiercely with threats to attend the University of Miami on a football scholarship, and for his efforts he received the largest bonus to date, \$2,150,000.

The remaining first round picks fared well, seeing the average money rise approximately 100% from the 1991 totals to \$774,833.26 (Major League Baseball Players' Association).

Assuming that the increases in bonus money will continue at the pace illustrated by the previous examples would be dangerous since the bonus explosion only began in 1988 after signing bonuses had increased at a minimal rate from the draft's inception in 1965. For example, the first overall draft choice in 1965 signed for a bonus of \$104,000 while the number one pick in 1987 received \$160,000, a relatively minimal increase considering the twenty-two year time span (Simpson, 1990, p. 21; p. 270). It is likely that bonuses will continue to rise, but at a much more controlled rate than has been evident in the previous six to eight years. Based on the statistics of the last four drafts for which complete numbers are available (1992-1995), a declining rate of increase in average signing money has been evident. In 1992, average first round bonus money was \$602,185.47, a 51.98% increase from 1991. The average bonus rose 28.67% to \$774,833.26 in 1993, and then rose only 9.67% to \$849,726.55 in 1994. With an average signing bonus of \$878,360.91 in 1995, first round draftees only saw an increase of 3.37% over their 1994 counterparts (Major League Baseball Players' Association).

Although each player chosen in the first round of the draft undoubtedly feels that he has the physical and mental tools to eventually reach the majors, the fact is that all will not reach that ultimate goal. Based on statistics attained from each amateur draft from 1975 until 1989, a first round choice has a 63.3% chance of playing in the

Majors at some point in his career (Simpson, 1990, p. 131-307) This is a percentage that could cause a first round draft choice to lean towards signing immediately.

Another of the most obvious factors that push the high school first round draft choice to sign a professional contract is the signing bonus. This becomes especially true when a player considers what the money can do for him if invested properly. The 1995 June Major League Baseball Amateur Draft saw first round choices who signed contracts receive an average of \$878,360.91 as a signing bonus (Major League Baseball Players' Association). Assuming these bonuses fall into normal 1995 marginal tax rates, a player will be left with an after tax bonus of \$550,393.49 after paying 39.6% on all money earned above \$256,500 (Murphy, 1995, p. A2).

While the money that a first round draft choice receives is much higher than that of players falling later in the selection process, another factor aiding first round picks is evident. Although the salary of minor leaguers is similar if not identical across the league, the contracts held by players trying to reach the major leagues can be most different. Players chosen in the first round are often able to negotiate important incentives and bonuses into their contracts. This is a luxury that does not extend deeply into the draft. One player might want to be guaranteed a call to the majors by a certain date while another might ask for specific performance based monetary incentives. Any high school player finding himself drafted in the first round can also be sure that he will receive a contractual guarantee providing college education money from the drafting organization. Regardless of what each player might consider important to his own situation, being chosen in the first round makes the likelihood of

negotiating a personally favorable contract much greater than it is for those players chosen much later in the draft.

A final factor that might influence a high school first round draft choice to sign a professional contract is the situation facing him should his baseball career fail. First of all, if he has made any sort of intelligent investment with his signing bonus and salary money that he received during his career, a first round draft choice can be secure for a few years after the baseball career comes to a close regardless of whether or not he has begun his own family. This allows time to search for employment without feeling undue financial strain. The investment returns, coupled with the organization's contractual obligation to fund a college education, also could allow a player to pursue his schooling at the highest level at little or no cost to himself or his family.

The Second Through Fifth Round Draft Choice

High school seniors chosen in the second through fifth rounds of the June Major League Baseball Amateur draft find themselves in a predicament not unlike that of the first round pick. They must weigh the advantages of a six figure signing bonus and a guaranteed college education against potential upward mobility in the draft. These choices must again be made while being pressured from all sides by family, professional scouts, and college recruiters.

One consideration that is not as favorable to drafted players falling into this category as opposed to their first round counterparts is the chance of reaching the

major leagues. Analyzing the second round through fifth round draft choices over the fifteen year period of 1975 through 1989, it can be seen that 35.8% of these players reached the majors during their professional careers (Simpson, 1990, 131-307).

While players falling into this draft category again might assume that being a top draft choice guarantees that they possess all the needed skills in order to excel, they cannot deny that 64.2% of players in the same position in the past did not ever set foot in a Major League stadium as a competitor.

The signing bonus is a factor that will again exert heavy pressure on the drafted player. The first type of push is in the immediate gain. Those athletes falling into the second through fifth rounds in 1995 received an average bonus of \$231,258.76 (Major League Baseball Players' Association). Taxing this bonus at normal marginal 1995 rates leaves an after tax amount of \$158,635.11 after paying 36% on all earnings above \$117,950 (Murphy, 1995, A2).

While this is substantial money, the potential signing bonus also pressures the high school player to attend college and test the draft waters at a later date. Although the bonuses are not increasing at the rate of the late 1980's, a second through fifth round choice has the chance of moving to a higher round or position in the draft and possibly earning a larger signing bonus.

Another area that second through fifth round draft choices might find advantageous is their contract negotiations. This cross section of the draft is still high enough to carry some heavy clout to the bargaining table when it comes time to reach an agreement on a contract for the player. The ability to demand incentives and

guaranteed calls to the majors is not equal to that of draftees from the first round, but a high school player in this draft category most definitely will have a guaranteed college education included in the conditions of his agreement to sign a contract.

In the event that a player from this draft segment is one of the 64.2% who are not fortunate enough to reach the majors, the outlook is not likely to be bleak. Returns from proper investment of a portion of the signing bonus could be sufficient to provide income while he pursues his education at the expense of the organization. The earnings should also furnish support for a player and, if he is married, his family, while he actively searches for employment. These factors allow a player who falls short of the majors to keep his options open upon his retirement from baseball.

The Sixth Through Fifteenth Round Draft Choice

Athletes who find themselves chosen anywhere between the sixth and fifteenth rounds of the Major League draft face a most difficult decision when weighing the pros and cons of signing a professional contract immediately or attending college. The bonus offered to them will be sizable, but the potential to move forward in the draft is also evident. Some of the advantages of being a high pick will be offered to these draftees while some of the disadvantages of being a low pick will have to be endured.

If one's odds of playing in the majors are an important factor in the signing decision, then drafted players in this category might want to choose the college route.

Based on statistics from the 1975 to 1989 drafts, 15.4% of sixth through fifteenth round choices reached the big leagues while a sizable 84.6% spent a career toiling in the minors (Simpson, 1990, p. 131-307). These ominous numbers head a list of several ambiguous factors facing draftees in this category.

The signing bonus for draft picks from the sixth through fifteenth rounds is not the massive six-digit sum that the highest rounds receive, but it remains a formidable amount. In the 1995 draft, players from this set of rounds earned an average of \$58,162.19 as a signing bonus (Major League Baseball Players' Association). After paying 31% in taxes on all earnings above \$56,550 as specified in the 1995 marginal tax rates, the remaining sum is \$44,863.91 (Murphy, 1995, A2).

Even though the lure of this money is powerful to most teenagers, a player talented enough to be chosen in one of these rounds must consider his potential for upward mobility. While it is always possible that an athlete who chooses not to sign will be drafted in a later position the next time around, these draftees must also contemplate forgoing the short term gain for the feasible greater long term profit.

For the draftee chosen in the sixth through fifteenth rounds, the contract is a difficult item to categorize. Some players may be able to negotiate well and receive a great percentage of the items they hope to have included in their respective contracts. Others, however, will not bargain as effectively and will not have contracts full of incentives and guarantees as do players chosen in earlier rounds. This can be seen in that many players falling into this draft classification will have a guaranteed college education in their professional contract while others will not be as fortunate.

Depending on the particular athlete, the contract might be a great asset or simply a governing document for the player who falls into this cross section of the draft.

For sixth through fifteenth round picks, it is a fact that nearly 85 % of the players will not play in the majors. If a player from this portion of the draft who signs immediately out of high school is a member of this majority, he could find himself facing less than ideal circumstances at the close of his career. Only those who receive college money from their organizations and sensibly invest a large portion of their signing bonus will not be facing an uphill battle should baseball fail to produce. Unfortunately, those who do not negotiate for college money will find it difficult to attend school should they fall short of the majors. Immediate financial need is one factor that could force the retiring player to work without having the opportunity to earn a degree. The lack of higher education likely will prove costly in the long run to the players unable to attain it.

The Sixteenth Through Thirtieth Round Draft Choice

Draftees chosen in the sixteenth through thirtieth rounds in the Major League Baseball Amateur Draft each June are members of the first draft category whose circumstances seem to point strongly towards accepting the college education. Only a select few will be able to negotiate for a high signing bonus or for a favorable contract, but the lure of making it big and attaining a quick profit will always be sufficient to push some athletes into signing immediately.

Any player who chooses to sign as a draft pick from one of these rounds will be beating some powerful odds if he is ever able to compete in the major leagues. A look at the drafts over the fifteen year period of 1975 to 1989 reveals that only 7.2% of the players falling into those rounds actually reached the majors during their careers (Simpson, 1990, p. 131-307). Even the most confident of athletes must agree that having a 92.8% chance of falling short of one's ultimate goal is an inauspicious manner in which to begin pursuit of that objective.

Sixteenth through thirtieth round selections can still expect to receive a five digit signing bonus, though only about half of what sixth through fifteenth rounders receive. The 1995 draft saw an average bonus for this category of the draft as being \$24,060.37 (Major League Baseball Players' Association). This amount requires the recipient to pay 28% in taxes on all earnings above \$23,350 according to 1995 marginal tax rates (Murphy, 1995, A2). Doing this will leave \$20,359.47 available to the player for use at his own discretion. Although this amount might again seem like a tremendous sum to some high school draftees, they must take into account the fact that they have much potential to move forward in the draft at a later date. If the players and their families will keep this fact in mind, the notion of turning down thousands of dollars seems much more rational. This rationality is further strengthened considering that the player will receive a college education in the meantime.

While the potential immediate gain from signing for the sixteenth through thirtieth round draft selections is not as persuasive as it is for earlier draft picks, the

contract by which they can expect to be governed will probably be even less favorable. Only the fortunate players in this cross section of the draft will bargain and receive any special clauses or incentives in their contracts. Some players with undue bargaining power will negotiate to receive college money in their contracts, but most of these draftees will be faced with footing the bills should higher education be in their post-baseball plans. This will be difficult if the player begins his own family during his professional career and does not invest a substantial portion of his signing bonus at a high interest rate. Should the sixteenth through thirtieth round selection be one of the nearly 93% of his kind who complete baseball as a career minor leaguer, there could exist a difficult quest for comfort after his retirement.

The Thirty-First Through Fiftieth Round Choice

The final category of draftees is those whose name is called somewhere in the last twenty rounds. Most of the factors that pressured earlier draft picks to consider signing will exert the opposite force on these athletes. A relatively small signing bonus, a contract with few incentives, and tremendous odds against success are items that players in this section of the draft can expect to receive.

A player's chance of reaching the majors being selected in the latest category of the draft is definitely stacked against him. Of the drafted players from rounds thirty-one to fifty during the period of 1975 to 1989, only 1.8% advanced to the major leagues during their careers (Simpson, 1990, p. 131-307). These are not the most

favorable of odds for a player to be challenging, especially considering that the financial incentive to do so will be minimal in the long run.

Although a player in this last category of the draft can expect a five digit signing bonus just as the draftees in the previous two classifications received, the sum hovers just above four digit status. In 1995, players chosen in rounds thirty-one through fifty were paid an average bonus of \$14,259.41 (Major League Baseball Players' Association). According to 1995 marginal tax rates, these athletes must pay 15 % of this amount, leaving \$12,120.50 for their own personal usage (Murphy, 1995, A2). While it is undeniable that this money would be beneficial to anyone, it is also certain that high school players who are drafted in this last category can only see their draft status improve if they choose to attend college and become eligible for the draft at a later date. A slight chance that they will not be drafted again does exist, but, since the inception of the draft in 1965, 89.2% of the high school seniors who have decided not to sign professionally at their first opportunity have been chosen again in future drafts (Simpson, 1990, p.20).

While signing bonuses for players in the last draft category are of little long term benefit, the contracts offered to the draftees are often worse. A player receiving anything but the Uniform Minor League Player Contract is fortunate. Most athletes carry little or no bargaining power as a draftee from a late round, and they are usually extended few special offers from the drafting organization. For these players, their negotiations may consist of "take it or leave it" proposals from the club.

The lack of a substantial signing bonus and contractual guarantees deposit a retiring member of the 98.2% of the drafted players from this category who fall short of the majors in a potentially difficult scenario. Little if any money will likely remain from the initial signing bonus, making a college education financially challenging. In the event that a player has started his own family, the time for further schooling may not be available. These factors combine to create unfavorable conditions that could face a player from this draft position at the close of his career.

Those Who Reach the Major Leagues

For the 13.3% of drafted players who are able to advance to the majors during their careers, a lifetime of financial security may be attained. This may not be true if a player's big league experience lasts for only a very brief period, but if the player spends a few seasons in the league and makes intelligent use of his salary, then his money will generate tremendous returns.

In 1994, the minimum salary that could be paid to major leaguers was \$109,000, and the average player earned slightly over \$1.1 million (Martin, 1994, p.12). A short career earning the league minimum probably will not create a bank account sufficient to support a family for life, but several seasons as one of the average players in the majors could allow an athlete to invest and earn a substantial amount. If an average major leaguer invested 23.9% of his salary at the T-bill rate each year throughout a three year contract, at the end of the period, his earnings would be

$$FV1 = 262,900 (1.0425) = \$274,073.25$$

$$FV2 = [274,073.25 + 262,900] (1.0425) = \$559,794.61$$

$$FV3 = [559,794.61 + 262,900] (1.0425) = \$857,659.13$$

This 23.9% of the salary placed in an S&P 500 type fund over three years will return

$$FV1 = 262,900 (1.1106) = \$291,976.74$$

$$FV2 = [291,976.74 + 262,900] (1.1106) = \$616,246.11$$

$$FV3 = [616,246.11 + 262,900] (1.1106) = \$976,379.67$$

Based on these numbers alone, it is evident that a player talented and fortunate enough to compete in the major leagues near the average level can have a nice sum of money waiting for himself and his family when the baseball career runs its full course. Ample opportunity for college or relaxation before beginning a new occupation should be available to the player who has a decent major league career. Unfortunately for most draftees, there exists upwards of an 87% chance that this will not be the case.

Recent Draftees Making Their Own Signing Decisions

Discussing the scenarios facing baseball players drafted immediately following high school would seem incomplete without the inclusion of a few cases in point. The following four players were all faced with similar circumstances relating to their draft position and the offers received from their drafting organizations. This section will report each player's decision and his current career status.

The first player whose situation will be addressed is outfielder Tony Sheffield. As a 1992 second round draft choice out of Tullahoma, Tennessee, he was offered a signing bonus of \$162,000. After considering scholarship offers from Alabama, Ole Miss, Tennessee, and Middle Tennessee, Sheffield decided that professional baseball was the best choice for himself. Being a high draft pick, Sheffield was able to negotiate a contract containing performance incentives based on offensive statistics including hits and stolen bases. He also received four years worth of college money at a public school in the state of Tennessee. At the close of the 1995 season, Tony was competing at the double A level.

A second player who was faced with the signing decision during the 1992 draft was outfielder/first basemen Todd Helton, a Knoxville native. Also chosen in the second round, Helton received an offer to sign for \$450,000. Having already accepted a football scholarship to the University of Tennessee, Helton had the opportunity to compete in two intercollegiate sports during his schooling. This lure, along with the fact that signing bonuses had been increasing for the few drafts prior to 1992, was enough to convince Helton to attend school and enter the draft again as a college player. After completing a stellar career at Tennessee, Helton was selected in the first round of the 1995 draft. After brief negotiations, a signing bonus of \$892,000 was agreed upon by Helton and the Colorado Rockies. The decision to attend college proved to be the lucrative choice. Helton played high A ball in 1995.

A third player whose signing decision lends itself to this study is Kennie Henderson, a pitcher from Ringgold, Georgia. Chosen in the first round of the 1991

draft as a high school senior, Henderson was offered a signing bonus of \$500,000 as an incentive to forego his scholarship to the University of Miami. Not being in immediate financial need, Henderson decided to receive his education at Miami and compete at the collegiate level until he could be drafted again. After experiencing arm problems and difficulty in throwing strikes to opposing hitters, Henderson was completely passed over in the 1994 draft and then chosen in the fifth round of the 1995 selection process. Even though Henderson lacks only one semester to graduate, the fact that he signed for \$35,000 makes his decision to attend college appear costly from a financial standpoint. Henderson competed in high A baseball in 1995.

The final player whose signing decision will be addressed is Nashville pitcher R. A. Dickey. Selected in the tenth round of the 1993 draft out of Montgomery Bell Academy in Nashville, Dickey received an offer of \$110,000 to sign a professional contract. Being unsure of his decision, Dickey went on to discuss possible contract clauses with his drafting organization, the Detroit Tigers. After a month of deliberation, Dickey chose to accept his scholarship to the University of Tennessee. During his career, Dickey has been named national Freshman of the Year, has been a member of numerous All-American teams, and has played for Team USA in 1994 and 1995. He will be eligible for the draft at the close of the 1996 season.

Conclusions

Being a baseball player who is chosen by a Major League organization in the amateur draft is most definitely an exciting moment for all involved. The selection represents an opportunity to move on to another level of competition while also serving as a reward for excelling at a previous level. The fact still remains, though, that not all drafted high school athletes are ready to play professionally. A college career is a chance for those players to receive an education while maturing physically and mentally. For some players, the decision of whether or not to sign a professional contract immediately after high school is based on intensely personal factors which are difficult to quantify with any broad set of recommendations. These conditions include such things as family wealth and personal intelligence. For other players falling into the broader range of those not overtly wealthy, impoverished, or unable to gain entrance into a college, it is possible to make a set of recommendations based on the information included in the study.

Recommendations

Using the financial figures and statistics included in the study, a set of rough recommendations for drafted players based on round of selection can be made. They will not hold true in all cases due to each player having a differing set of circumstances, but the suggestions could be used as general a guideline or a point of reference for any draftee.

The First Round Draft Choice

In the case of the 1996 first round draft choice, the recommendation is simple: negotiate and sign a contract. The most important numbers speak for themselves. As seen in table 1 of the appendix, with an expected present value of \$4,501,381 for signing compared to an EPV of \$1,654,654 for attending college, the \$2,846,727 discrepancy in favor of the immediate signing of a contract is a powerful amount to refuse for any player.

A second statistic in supporting the decision to sign is the first round pick's 79% chance to fall to a later round when drafted again (Simpson, 1990, p. 20). This is crucial because the 1996 first round selection who attends college and is a 1999 first round pick should not expect to see the average bonus paid to first rounders rise as it did in the late 1980's and early 1990's. He would likely receive more money in 1999, but not an amount great enough to merit the risk he would be assuming by allowing himself to be re-drafted. Looking at table 12 of the appendix shows that the \$878,360 signing bonus he receives now can generate quality returns if a decent amount is properly invested.

A final reason that a first round choice should sign is the situation facing him at the end of his baseball career. Being a first round choice, a 63% chance that he will reach the majors exists, but even if he does not achieve that goal, the cupboard will not be bare. A guaranteed college education is a given in his contract, and if he has invested any sizable portion of his signing bonus and salary, the returns will be

sufficient enough to comfortably sustain the player and his family for a period while the adjustment to life after baseball is made.

The Second Through Fifth Round Draft Choice

The situation facing the 1996 second through fifth round selection is not unlike that of the first round pick. The recommendation, though not as set in stone, is again to sign immediately. Referring again to table 1, it can be seen that the EPV of signing out of high school is \$2,478,848 for this draft category while the EPV of pursuing a college education and baseball career is \$1,547,430. The difference between these two scenarios is still a substantial \$931,418, and this sum is surely enough to sway some players previously unable to decide which route to choose.

Even though the odds of reaching the majors from this draft category fall to 36%, the \$231,000 average signing bonus is substantial enough to provide some financial security to a player who falls short of the majors assuming that it is invested carefully. Table 12 details some of these potential returns. College money will also be available for the player willing to demand that it be included in his contract. These factors combine to create a positive scenario for the player in the event that his career ends in the minors. Some opportunity for draft advancement does exist for second through fifth round draftees, and this will be a reason for a few to refrain from signing.

The Sixth Through Fifteenth Round Draft Choice

The player chosen in 1996 in the sixth through fifteenth rounds likely faces the most difficult decision of all the draft categories. He lies in the middle of several factors that should push him toward one option or the other. According to table 1, his

EPV of signing immediately is \$1,203,217, while his EPV of attending college is slightly larger at \$1,261,951. These numbers leave a difference of \$58,734 in favor of the education, but this is not an overwhelming sum.

The average signing bonus of \$58,162 is a large amount of money in the short term to someone in financial difficulty, but only through frugality and shrewd investing will it be sufficient to support a player and possibly his family for any period of time at the close of his baseball career. The inability of this bonus amount to generate very substantial returns can be seen in the amounts in table 12. This shows how the player, although he likely will be able to bargain for the organization to fund a college education, will find it difficult to earn a degree. Additionally, the player's chances of reaching the majors have fallen to a mere 15%.

For the rare player in this draft category who comes from a very wealthy background and is able to negotiate successfully, the recommendation is to consider both options. For most other players, especially those who are unable to bargain for college money, the recommendation is that they take the education and try to be drafted again in 1999. The negative number attained from the difference between the signing EPV and the college EPV is not a promising factor for draftees in this category thinking about signing. In the event that the baseball career fails, the threat of being a member of the work force lacking a college degree should be enough to pressure these draftees into attending school.

The Sixteenth Through Thirtieth Round Draft Choice

The player drafted in the sixteenth through thirtieth rounds of the 1996 draft has more factors working against him than in his favor. Table 1 shows that the EPV of signing for the player in this cross section of the draft is \$801,307 compared to an EPV of \$1,142,388 for going to college. It is evident that the gap of \$341,081 in favor of the education strongly suggests that he choose school over the quick profit.

Other negatives for this draft choice are his chance of playing baseball in the majors (an unfavorable 7%) and the signing bonus he can expect to be offered (about \$24,000). Even though this is a large amount of money, it likely will not last into a multi-year minor league career. If this is the case, a player never reaching the majors will find himself facing difficult circumstances should he have his own family at the close of his career. To make matters more difficult, it is possible that the player will not have a good chance to negotiate and earn his college money. This potential lack of guaranteed college money coupled with the dearth of sufficient funds capable of supporting a retiring player for any period of time (unless he invests his entire bonus at a tremendous rate) make the recommendation for all draftees in this classification to attend college and attempt to be drafted again in the future.

The Thirty-First Through Fiftieth Round Draft Choice

The player chosen in 1996 in one of the draft's final twenty rounds faces a situation similar to his predecessors in the sixteenth through thirtieth rounds, and that situation creates an obvious logical decision. The first reason is the comparison of EPV's. As seen in table 1, the EPV of signing out of high school is \$543,341 while

the EPV of attending college is \$1,078,101. A \$534,670 balance supporting the choice to attend school can be found between these two EPV's.

Another problem is that this draftee's signing bonus will be approximately \$14,000 on the average. Even investing this entire amount will not produce substantial returns after four years. Also, this draftee will have a most difficult time negotiating with his drafting organization for any items not included in the Uniform Minor League Player Contract. When it is included that only 2% of the these players ever compete in the majors, it is most evident that the recommendation for all draftees chosen in this division of the draft is to attend college and become eligible for the draft at a later date.

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Appendix

1

Table 1

			Round	Drafted		
		Round 1	Rounds 2-5	Rounds 6-15	Rounds 16-30	Rounds 31-50
Sign						
No majors	PV1	478,056.07	412,762.41	401,264.55	429,448.81	441,541.88
Majors	PV2	4,023,324.69	2,066,085.90	801,952.68	371,858.02	101,798.85
	EPV	\$4,501,381	\$2,478,848	\$1,203,217	\$801,307	\$543,341
College						
Same or higher pick	PV3	864,645.22	1,023,765.88	906,902.26	956,119.90	990,557.55
Lower pick	PV4	702,465.50	438,121.58	267,505.88	98,725.34	0.00
Not drafted	PV5	87,543.01	87,543.01	87,543.01	87,543.01	87,543.01
	EPV	\$1,654,654	\$1,547,430	\$1,261,951	\$1,142,388	\$1,078,101
Signing EPV -		\$2,846,727	\$931,418	(\$58,734)	(\$341,081)	(\$534,760)
College EPV						

Table 2

		First Round Pick	Signing	i =	0.07655
Age	Time			g,d =	0.0425
18	0	Signing Bonus =	878360.91		
			Minor Leagues		
	1	low A	2550	2446.043165	
	2	middle A	6175	5681.785507	
	3	high A	7150	6310.704589	
	4	double A	10075	8529.838337	
23	5	triple A	12350	10029.66989	
			minors' sum at t=0	32998.04149	
			No Majors (37%)		Majors (63%)
24	6	triple A	12350		1100000
	7	triple A	12350		1100000
	8	triple A	12350		1100000
	9	triple A	12350		1100000
	10	triple A	12350		1100000
	11	triple A	12350		1100000
30	12	triple A	12350		1100000
		minors' sum at t=0	56924.18369	majors' sum at t=0	5070170.353
			Regular Job		Regular Job
31	13	annual salary	28043	annual salary	35053
		sum of job at t=0	323760.2846	sum of job at t=0	404700.3557
65	47	sum of all earnings	1292043.42	sum of all earnings	6386229.661
		PV1	478,056.07	PV2	4,023,324.69
			EPV of signing=	4,501,380.75	

Table 3

		First Round Pick	College				
						i =	0.07655
Age	Time			Age	Time	g.d =	0.0425
18	0	0		18	0	0	
	1	0			1	0	
	2	0			2	0	
	3	0			3	0	
		After College	1st Round (21%)			After College	Later Pick (68%)
22	4	Bonus at t=0	743650.2793	22	4	Bonus at t=0	37195.17495
		Minor Leagues				Minor Leagues	
23	5	3300	2679.992765	23	5	2850	2314.539206
	6	10075	7848.53633		6	7150	5569.929009
	7	12350	9228.572153		7	10075	7528.57202
25	8	12350	8852.347389		8	10075	7221.651817
		Sum at t=0	28609.44864		9	12350	8491.460325
				28	10	12350	8145.285684
						sum at t=0	39271.43806
		No Majors (37%)	Majors (63%)			No Majors (89%)	Majors (11%)
26	9	12350	1100000	29	11	12350	1100000
	10	12350	1100000		12	12350	1100000
	11	12350	1100000	31	13	12350	1100000
	12	12350	1100000		14		1100000
	13	12350	1100000		15		1100000
	14	12350	1100000		16		1100000
32			1100000	35	17		1100000
	At t=0	43737.91672	4475013.611		At t=0	21091.56007	4117581.778
		Regular Job	Regular Job			Regular Job	Regular Job
32;33	15;16	44554	55692	32;36	14;18	44554	55692
	At t=0	458189.1669	539883.9506		At t=0	485663.6542	478406.8405
		sum of earnings	sum of earnings			sum of earnings	sum of earnings
65	47	1274186.812	5787157.289	65	47	583221.8273	4672455.231
		earnings * .37	earnings * .63			earnings * .89	earnings * .11
		471449.1203	3645909.092			519067.4263	513970.0754
		No majors+majors	4117358.212			No majors+majors	1033037.502
		PV3	864,645.22			PV4	702,465.50
		After College	Not Drafted(11%)				
			Regular Job				
23	5		44554			EPV of school =	1,654,653.74
65	47	sum of earnings	795845.5434				
		PV5	87,543.01				

Table 4

		Rounds 2-5	Signing	i =	0.07655
				g,d =	0.0425
Age	Time				
18	0	Signing bonus =	231258.76		
			Minor Leagues		
	1	low A	2550	2446.043165	
	2	middle A	6175	5681.785507	
	3	high A	7150	6310.704589	
	4	double A	10075	8529.838337	
23	5	triple A	12350	10029.66989	
			Minors' sum at t=0	32998.04149	
			No Majors (64%)		Majors (36%)
24	6	triple A	12350		1100000
	7	triple A	12350		1100000
	8	triple A	12350		1100000
	9	triple A	12350		1100000
	10	triple A	12350		1100000
	11	triple A	12350		1100000
30	12	triple A	12350		1100000
		Minors' sum at t=0	56924.18369	majors' sum at t=0	5070170.353
			Regular Job		Regular Job
31	13	annual salary	28043	annual salary	35053
		sum of job at t=0	323760.2846	sum of job at t=0	404700.3557
65	47	sum of all earnings	644941.2698	sum of all earnings	5739127.51
		PV1	412,762.41	PV2	2,066,085.90
			EPV of signing =	2,478,848.32	

Table 5

		Rounds 2 - 5		College																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																	</
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Table 6

		Rounds 6-15	Signing	I =	0.07655
				g,d=	0.0425
Age	Time				
18	0	Signing Bonus =	58162.19		
			Minor Leagues		
	1	low A	2550	2446.043185	
	2	middle A	6175	5681.785507	
	3	high A	7150	6310.704589	
	4	double A	10075	8529.838337	
	5	triple A	12350	10029.66989	
24	6	triple A	12350	9620.78647	
			minors' sum at t=0	42618.82798	
			No Majors (85%)		Majors (15%)
25	7	triple A	12350		1100000
	8	triple A	12350		1100000
	9	triple A	12350		1100000
	10	triple A	12350		1100000
	11	triple A	12350		1100000
30	12	triple A	12350		1100000
	13				1100000
		minors' sum at t=0	47534.64126	majors' sum at t=0	4863472.761
			Regular Job		Regular Job
31;32	13;14		28043		35053
		sum of job at t=0	323760.2846	sum of job at t=0	382097.4109
65	47	sum of all earnings	472075.9438	sum of all earnings	5346351.19
		PV1	401,264.55	PV2	801,952.68
			EPV of signing =	1,203,217.23	

Table 7

		Rounds 6-15		College					
								i =	
								g.d=	
Age	Time					Age	Time		
18	0		0			18	0		0.07655
	1		0				1		0.0425
	2		0				2		
	3		0				3		
		After College		Rounds 1-15 (53%)				After College	
								Later pick (36%)	
22	4	Bonus at t=0		135093.1135		22	4	Bonus at t=0	15828.71378
		Minor leagues						Minor leagues	
23	5		2850	2314.539206		23	5		2070.9035
	6		7150	5589.929009			6		4810.393235
	7		10075	7528.57202			7		5342.857582
	8		12350	8852.347389			8		7221.651817
27	9		12350	8491.460325			9		8491.460325
		Sum at t=0		32756.84795		28	10		8145.285884
								Sum at t=0	36082.55212
		No Majors (76%)		Majors (24%)				No Majors (96%)	
								Majors (4%)	
28	10		12350	1100000		29	11		1100000
	11		12350	1100000		30	12		1100000
	12		12350	1100000			13		1100000
31	13		12350	1100000			14		1100000
	14			1100000			15		1100000
	15			1100000			16		1100000
34	16			1100000		35	17		1100000
	At t=0		28858.59851	4292579.003			At t=0		14285.75019
									4117581.778
		Regular Job		Regular Job				Regular Job	
32;35	14;17		44554	55692		31;36	13;18		55692
	At t=0		485663.6542	508460.4496			At t=0		514382.0426
									478406.8405
		sum of earnings		sum of earnings				sum of earnings	
65	47		682372.2142	4968889.414		65	47		4847699.884
		earnings * .76		earnings * .24				earnings * .96	earnings * .04
			518602.8828	1192533.459				557163.8963	185907.9954
		No majors+majors		1711136.342				No majors+majors	743071.8917
		PV3		906,902.26				PV4	
								267,505.88	
		After College		Not Drafted (11%)					
				Regular Job					
23	5			44554				EPV of school =	1,261,951.15
		sum of earnings		795845.5434					
		PV5		87,543.01					

Table 8

		Rounds 16-30	Signing		
				i =	0.07855
Age	Time			g,d=	0.0425
18	0	Signing Bonus =	24060.37		
			Minor Leagues		
	1	low A	2550	2446.043165	
	2	middle A	6175	5681.785507	
	3	high A	7150	6310.704589	
	4	double A	10075	8529.838337	
	5	triple A	12350	10029.66989	
24	6	triple A	12350	9620.76647	
			minors' sum at t=0	42618.82796	
			No Majors (93%)		Majors (7%)
25	7	triple A	12350		1100000
	8	triple A	12350		1100000
	9	triple A	12350		1100000
28	10	triple A	12350		1100000
	11				1100000
	12				1100000
31	13				1100000
		minors' sum at t=0	32696.6627		4863472.761
			Regular Job		Regular Job
29;32	11;14	annual salary	28043	annual salary	35053
		sum of job at t=0	362397.0562	sum of job at t=0	382105.4531
65	47	sum of all earnings	461772.9169	sum of all earnings	5312257.412
		PV1	429,448.81	PV2	371,858.02
			EPV of signing =	801,306.83	

Table 9

		Rounds 16-30	College			i =	0.07655
						g,d=	0.0425
Age	Time			Age	Time		
18	0	0		18	0	0	
	1	0			1	0	
	2	0			2	0	
	3	0			3	0	
		After College	Rounds 1-30 (74%)			After College	Later Pick (15%)
22	4	Bonus at t=0	77386.61132	22	4	Bonus at t=0	12072.15532
		Minor Leagues				Minor Leagues	
23	5	2850	2314.539206	23	5	2550	2070.9035
	6	7150	5569.929009		6	6175	4810.393235
	7	10075	7528.57202		7	7150	5342.857562
	8	12350	8852.347389		8	10075	7221.651817
27	9	12350	8491.460325		9	12350	8491.460325
		sum at t=0	32756.84795	28	10	12350	8145.285684
						sum at t=0	36082.55212
		No Majors (85%)	Majors (15%)			No Majors (98%)	Majors (2%)
28	10	12350	1100000	29	11	12350	1100000
	11	12350	1100000	30	12	12350	1100000
30	12	12350	1100000		13		1100000
	13	12350	1100000		14		1100000
	14		1100000		15		1100000
	15		1100000		16		1100000
34	16		1100000	35	17		1100000
	At t=0	28858.59851	4292579.003		At t=0	14285.75005	4117581.778
		Regular Job	Regular Job			Regular Job	Regular Job
31;35	13;17	44554	55692	31;36	13,18	44554	55692
	At t=0	514382.0426	508460.4496		At t=0	514382.0426	478406.8405
		sum of earnings	sum of earnings			sum of earnings	sum of earnings
65	47	653384.1004	4911182.912	65	47	576822.5001	4644143.326
		earnings * .85	earnings * .15			earnings * .98	earnings * .02
		555376.4853	736677.4368			565286.0501	92882.86651
		No majors+majors	1292053.922			No majors+majors	658168.9166
		PV3	956,119.90			PV4	98,725.34
		After College	Not Drafted (11%)				
			Regular Job				
23	5		44554			EPV of school =	1,142,388.25
		sum of earnings	795845.5434				
		PV5	87,543.01				

Table 10

		Rounds 31-50	Signing	i =	0.07655
				g,d=	0.0425
Age	Time				
18	0	Signing Bonus =	14259.41		
			Minor Leagues		
	1	low A	2550	2446.043165	
	2	middle A	6175	5681.785507	
	3	high A	7150	6310.704589	
	4	double A	10075	8529.838337	
	5	double A	10075	8182.099124	
	6	triple A	12350	9620.78647	
25	7	triple A	12350	9228.572153	
			minors' sum at t=0	49999.82935	
			No Majors (98%)		Majors (2%)
26	8	triple A	12350		1100000
	9	triple A	12350		1100000
28	10	triple A	12350		1100000
	11				1100000
	12				1100000
	13				1100000
32	14				1100000
		minors' sum at t=0	23896.64219	majors' sum at t=0	4665201.689
			Regular Job		Regular Job
29;33	11;15	annual salary	28043	annual salary	35053
		sum of job at t=0	362397.0562	sum of job at t=0	360481.7664
65	47	sum of all earnings	450552.9378	sum of all earnings	5089942.695
		PV1	441,541.88	PV2	101,798.85
			EPV of signing =	543,340.73	

Table 11

		Rounds 31-50	College			i =	0.07655
						g.d=	0.0425
Age	Time			Age	Time		
18	0	0		18	0	0	
	1	0			1	0	
	2	0			2	0	
	3	0			3	0	
		After College	Drafted Again (89%)			After College	Not Drafted (11%)
22	4	Bonus at t=0	51324.8475				Regular Job
		Minor Leagues		23	5		44554
23	5	2850	2314.539206	65	47	sum of earnings	795845.5434
	6	7150	5589.929009				
	7	10075	7528.57202			PV5	87,543.01
	8	12350	8852.347389				
27	9	12350	8491.460325				
		Sum at t=0	32756.84795			EPV of school =	1,078,100.56
		No Majors (88%)	Majors (12%)				
28	10	12350	1100000				
	11	12350	1100000				
	12	12350	1100000				
31	13	12350	1100000				
	14		1100000				
	15		1100000				
34	16		1100000				
	At t=0	28858.59851	4282579.003				
		Regular Job	Regular Job				
32;35	14;17	44554	55692				
	At t=0	485663.6542	508460.4496				
		sum of earnings	sum of earnings				
65	47	598603.9482	4885121.148				
		earnings * .88	earnings * .12				
		526771.4744	586214.5378				
		No majors+majors	1112986.012				
		PV3	990,567.55				

Table 12

**Potential Four Year
Investment Returns**

12

				T-bill rate =	0.0425
				S&P 500 rate =	0.1106
First Round	After tax bonus =	550,393.49			
	4.575% of bonus	23.9% of bonus	50% of bonus	75% of bonus	
At the T-bill rate	29,741.90	155,372.96	325,048.04	487,572.06	
At the S&P 500	38,308.49	200,125.24	418,672.05	628,008.08	
Rounds 2-5	After tax bonus =	158,635.11			
	4.575% of bonus	23.9% of bonus	50% of bonus	75% of bonus	
At the T-bill rate	8,572.25	44,781.79	93,685.76	140,528.64	
At the S&P 500	11,041.32	57,680.35	120,670.19	181,005.28	
Rounds 6-15	After tax bonus =	44,863.91			
	4.575% of bonus	23.9% of bonus	50% of bonus	75% of bonus	
At the T-bill rate	2,424.33	12,664.83	26,495.45	39,743.18	
At the S&P 500	3,122.62	16,312.69	34,126.98	51,190.46	
Rounds 16-30	After tax bonus =	20,359.47			
	4.575% of bonus	2.32% of bonus	50% of bonus	75% of bonus	
At the T-bill rate	1,100.18	557.90	12,023.77	18,035.66	
At the S&P 500	1,417.06	718.60	15,486.99	23,230.49	
Rounds 31-50	After tax bonus =	12,120.50			
	4.575% of bonus	50% of bonus	75% of bonus		
At the T-bill rate	654.96	7,158.05	10,737.08		
At the S&P 500	843.61	9,219.79	13,829.69		