

Kevin Durant, who can become a free agent at the end of this season, has made it clear that he wants a huge multiyear contract. Durant claims that he will accept the free agent deal that offers him the highest salary. Durant is threatening to leave the Warriors unless they pay him at least what he can earn elsewhere.

For their part, the Warriors want to sign Durant for a much lower salary than he can earn elsewhere. The NBA's salary cap contributes to the Warrior's desire to pay Durant a low salary. With the salary cap, each team has a certain amount of money to spend on salaries. The Warriors argue that they will not be able to keep a championship caliber team together if Durant's contract soaks up too much money. Specifically, if a team spends more on Durant, it has less money left over to pay other stars. Without adequate payments, these other stars will leave, and the Warriors will stop dominating other teams. Faced with the salary cap, the Warriors will threaten to offer only a low salary.

During these negotiations, the Warriors have an advantage. Kevin Durant does not have an incentive to follow through on his threat. Sure, a different team may pay him \$5 million more a year than he can get from the Warriors. However, Durant earned \$35 million dollars a year in endorsements and media deals, which is more than his \$31.5 million basketball salary. By leaving the Warriors, Durant puts the outside money at risk. If he goes to a bad team, fans will not see him play very often and he will lose some of his stardom. Without this exposure, his endorsements are less valuable and his outside income will shrink. Ironically, Durant's promise to earn as much as he can should lead him to sign a contract with the Warriors at a relatively low salary.

Despite the monetary advantages Durant gains from staying with the Warriors, there are two reasons why he may leave for another team anyway. First, empirical research suggests that people want to feel that they have been treated fairly; if they are not treated fairly, they are even willing to reject their best option. In this case, Durant may be willing to lose out on lucrative outside endorsements if he feels that the Warriors are not treating him equitably.

Second, if Durant goes to a very large city, he may be able to retain his ability to earn endorsement income. After all, LeBron James made \$55 million a year beyond his basketball salary while playing for a bad team. LeBron was able to keep his endorsement earnings high in part because he signed contracts when he was with an elite team and in part because he plays in Los Angeles, which is a huge media market. Durant could retain his outside earnings if he went to a team in a large city such as New York -- where there are numerous endorsement opportunities for star players.

As the basketball season winds down, most fans will be watching how their favorite teams fare. Not me, I will mostly be watching to see if John's game theoretic modeling of Durant's contract negotiations explain the events that unfold.

Joe McGarrity is a professor of Economics at UCA. He can be reached at [joem@uca.edu](mailto:joem@uca.edu).