Applying Economic Principles

Case Study: Airbnb

How Three Guys and an Air Mattress Revolutionized the Lodging Industry

Name: ______________________________________ Date: ________________________

OVERVIEW

You have studied all 11 Economic Principles. Now it is time to apply them! Read the Airbnb story below carefully. For each principle, write 1-2 sentences explaining how that principle appears in the Airbnb case. Use specific details from the story - do not just copy the definition.

Worth: 22 points total (2 points per principle) **Individual assignment**

READ THE STORY | The Airbnb Origin Story

Read carefully. Look for connections to the 11 Economic Principles as you read.

It's 2007, and two roommates in San Francisco are broke.

Joe Gebbia and Brian Chesky couldn't pay their rent. A big design conference was coming to the city, and every hotel room was taken - travelers had nowhere to stay. The two friends spotted an opportunity: they blew up three air mattresses, set them up in their living room, and rented out the space for $80 a night. They called it "Air Bed and Breakfast." They were not just solving their own money problem; they were solving a problem for travelers too.

They soon brought in a third partner, Nathan Blecharczyk, to build a website. Their idea was simple: people with a spare room - or even just a couch - could rent it out to travelers. Travelers would get a cheaper, more interesting place to stay than a standard hotel. The platform would connect hosts and guests, and take a small fee from each booking. Airbnb would not own a single hotel room, but it could offer more rooms than any hotel chain in the world.

Getting there was not easy. Gebbia and Chesky pitched their idea to 15 different investors - and all 15 said no. One investor who rejected them later admitted: "We couldn't wrap our heads around air mattresses on the living room floor as the next hotel room." Despite the rejections, the founders kept going. In 2008, they were accepted into Y Combinator, a well-known startup program that gave them funding and support to grow.

By 2019, Airbnb's revenue was soaring. The company offered over 7 million listings in more than 220 countries. Instead of spending billions building hotels, Airbnb had created a platform where regular people became micro-entrepreneurs, earning income from space they already had. The cost for a host of renting one more night was low - the room was already there. And for every booking, both the host and the guest gained something they valued more than what they gave up.

Then came 2020 - and COVID-19.

When the pandemic hit, travel stopped almost overnight. Airbnb's value dropped by more than half. Guests demanded refunds. Hosts lost their income. The company considered cancelling its plans to go public on the stock market. The future looked uncertain.

Governments stepped in. In the United States, Congress passed a massive economic relief package that provided loans and financial assistance to small businesses - including Airbnb hosts, who were considered self-employed entrepreneurs. Airlines received over $50 billion in government support. The goal was to prevent a complete economic collapse and keep people and businesses afloat until conditions improved.

By fall 2021, Airbnb had largely recovered. Interestingly, the pandemic had created a new trend: because so many people were working from home, some guests started booking Airbnb stays for weeks or even months at a time. If you can work from anywhere, why not work from a mountain cabin or a beachside cottage? This 'work from anywhere' shift brought new life to Airbnb's business model.

In December 2021, Airbnb's market value reached more than $107 billion - making it one of the most valuable companies in the world. Not bad for three guys who started with air mattresses on a living room floor.

YOUR TASK | Apply the 11 Economic Principles

For each principle below, write 1-2 sentences in your own words explaining how that principle is shown in the Airbnb story. Use specific details from the case - do not just copy the definition.

How to write a strong answer (2 points):

Name the principle and connect it to a specific event, person, or decision in the Airbnb story.

Example (Principle 4 - Incentives): *"Airbnb gave hosts an incentive to rent out their spare rooms by offering extra income at low cost. Guests were also incentivized by prices much lower than hotel rates."*

1 You Must Make Choices Because Resources Are Limited

Think about: *What scarce resources did Gebbia and Chesky face at the start? What choice did they make because of scarcity?*

Your answer:

____

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2

The Real Cost of Something Is What You Give Up to Get It

Think about: *When the founders chose to start Airbnb, what did they give up? What was the opportunity cost for investors who said no?*

Your answer:

3

"How Much?" Decisions Are Made One Step at a Time

Think about: *Hosts decide whether to accept one more booking. What is the marginal benefit? What might the marginal cost be?*

Your answer:

4

People Act When They Have a Reason To

Think about: *What incentives did Airbnb create for hosts? For guests? What happened to those incentives during COVID-19?*

Your answer:

5

Trading with Others Makes Everyone Better Off

Think about: *How does an Airbnb booking show a voluntary trade? Who gains, and what do they each give up?*

Your answer:

6

Markets Naturally Find a Balance

Think about: *When conference hotels were full and prices were high, what did Airbnb do to help supply and demand find a new balance?*

Your answer:

7

Society's Resources Should Be Used Without Waste

Think about: *Before Airbnb, spare bedrooms sat empty. How did Airbnb turn idle resources into productive ones?*

Your answer:

8

Markets Work Well - But Not Always. Government Can Help.

Think about: *During COVID, the travel market collapsed. What did governments do to help? Was this correcting a market failure?*

Your answer:

9

One Person's Spending Is Another Person's Income

Think about: *When travelers book an Airbnb, who earns income? When COVID stopped travel, what happened to hosts' income and spending?*

Your answer:

10

When Overall Spending Is Too High or Too Low, the Government Can Act

Think about: *What fiscal or monetary tools did governments use during the pandemic to support businesses like Airbnb hosts and airlines?*

Your answer:

11

Economies Grow and Living Standards Improve Over Time

Think about: *How did Airbnb use technology to improve productivity? How did it raise living standards for ordinary people?*

Your answer:

BC Economics 12 | Unit 1

Marking Rubric

Airbnb Case Study - Applying Economic Principles

Student Name: ______________________ Date: ______________ Total: ________ / 22

Criteria	2 - Full Credit	1 - Partial Credit	0 - No Credit	Notes
What the teacher looks for:	Correctly identifies the principle in the Airbnb story with a specific detail.	Makes a connection but the explanation is vague or not clearly linked to the story.	No answer, or only copies the definition with no connection to Airbnb.	

Principle	Score / 2	Teacher Comments
1. You Must Make Choices Because Resources Are Limited	/ 2	
2. The Real Cost of Something Is What You Give Up to Get It	/ 2	
3. "How Much?" Decisions Are Made One Step at a Time	/ 2	
4. People Act When They Have a Reason To	/ 2	
5. Trading with Others Makes Everyone Better Off	/ 2	
6. Markets Naturally Find a Balance	/ 2	
7. Society's Resources Should Be Used Without Waste	/ 2	
8. Markets Work Well - But Not Always. Government Can Help.	/ 2	
9. One Person's Spending Is Another Person's Income	/ 2	
10. When Overall Spending Is Too High or Too Low, the Government Can Act	/ 2	
11. Economies Grow and Living Standards Improve Over Time	/ 2	
TOTAL	**/ 22**	