

Discussion of

**“How Do Households Set Prices?
Evidence from Airbnb”**

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Big Picture

- **It is common for research in Household Finance to document deviations from optimal financial decision-making.**
- **Typically, researchers attribute these deviations from optimality to mistakes arising from lack of financial sophistication.**
 - *Agarwal et al. (JFE 2017): average person paying points on mortgage loses \$700 by overestimating tenure in the house.*
- **This paper illustrates that “market” prices in sharing economy can be distorted by non-pecuniary considerations.**
 - At some level, this is not surprising. Maximizing expected utility is rarely the same thing as maximizing expected income or wealth.
 - That said, this is a fun paper to read. The data are cool, the idea to focus on college sports rivalries is clever, and the empirical work in this early draft is already quite careful.
 - *Dark side: Edelman et al. (AEJ 2017) find racial bias on Airbnb with respect to quantity decision.*

New Title > Old Title

- **OLD: “Do Household Financial Decisions Maximize Wealth? Evidence from Airbnb”**
 - **Wrong question!** Authors do not want to compete with the **gazillion** existing papers on costly homeowner mistakes.
 - **Mortgage choice** (e.g., Agarwal et al. (JFE 2017)).
 - **Mortgage refinancing timing** (e.g., Andersen et al. (WP 2017)).
 - **Homeowners insurance contract** (e.g., Collier et al. (WP 2017)).
- **NEW: “How Do Households Set Prices? Evidence from Airbnb”**
 - **Timely question.** As authors write, the “sharing economy requires households... **to set prices** on income-generating assets.”
 - *Of course, sharing economy also requires households to decide whether and when to share their assets (i.e., **to set quantities**).*
 - Better matches the nature of authors’ **pathbreaking** empirical analysis.
 - *For some households, decisions that maximize expected utility **will** differ from those that maximize expected rental profit.*

CliffsNotes™ Title

- **“Do financially unconstrained households that offer a single, self-contained Airbnb listing in a college town with a top 30 football team indulge their presumed disdain for college rivals by seeking slightly higher rental prices during rival games than justified by proxies for time-series variation in demand?”**
- The answer is a resounding yes!
- Highlights various ways the authors split the sample
 - **Finding limited to college towns.**
 - **Finding driven by self-contained units rather than shared units.**
 - **Finding driven by units in zip codes with below median credit card utilization** (lower balance as % of limit → unconstrained).
 - **Finding driven by hosts with one listing rather than hosts with multiple listings** (“professionals”).
- Careful readers will notice the lack of proxies for cross-sectional dispersion in level of host’s disdain for fans of rival teams.

Purely Financial Preferences

- **Ignoring any taste-based preferences:** host should seek to maximize expected rental income net of cleaning costs, etc.
 - Ask price should increase with expected increase in demand.
 - Ask price and/or security deposit should increase with expected costs of preparing for host's return home or next Airbnb user.
 - When expected rent is insufficient, host should not list the unit.
- **Main empirical finding:** ask price increases **too much** for **certain** types of hosts after including unit FEs and controlling for game characteristics, number of listed Airbnb units, and "Hotel Listing Premium."
 - Comparing markups for different types of hosts helps rule out alternative explanations based on overestimation of demand for rival games
 - *Minor: Is "Hotel Listing Premium" measured using hotel prices on the date the Airbnb host sets the ask price, the date of the game, or some other date range (i.e., is it something hosts can observe or a measure of rational expectations)?*

Financial-Based Alternatives?

- **What about increase in perceived probability of damage from rival fans?**
 - Authors demonstrate that stadium incidents increase during rival games, so hosts may **perceive** an increased risk of damage.
 - *Snowberg and Wolfers (JPE 2010) argue overbetting of longshots reflects a misperception of probabilities rather than risk-loving.*
 - Authors report that security deposits do not increase for rival games...
 - ... but they do not report these regressions...
 - ... it is unclear that hosts can set **date-specific** security deposits...
 - ... and the \$1 million "Host Guarantee Program doesn't cover cash and securities, **collectibles**, rare artwork, jewelry, pets" → **Hosts with college-themed man caves have the most to lose from rival fans.**
 - Helpfully, authors report that units are just as likely to be listed for rival games, and no less likely to be re-listed following rival games...
 - ... but I would still like to see analysis of listing (**quantity**) decisions for different types of hosts... rather than analysis of "Rental Income."

Taste-Based Preferences?

- **Now consider possibility that Airbnb host experiences disutility when renting unit to fans of a rival football team.**
- **“Superfan host” will increase the ask price above (baseline) optimal level for rival games, attempt to screen guests, or delist the unit.**
- **The stronger the taste-based preference, the more likely that we will observe this behavior → Clever to focus on football rivalries.**
 - **Ideally, authors would also exploit cross-sectional variation in disutility.**
 - **“I would rather see you lose than win myself”**
-- Phillip Price, Mr. Robot, eps2.7_init_5.fve
 - **Listing address → Owner name (Public records) → Educational Info (LinkedIn) → Distinguish UO alum from other local hosts → AER!!!**
- **The larger the financial cost of taste-based discrimination, the less likely that we will observe this behavior.**
 - **Listing premiums for rival games (\$32 for unconstrained vs. \$20 for constrained) imply average unconstrained host seeking extra \$12 → relatively modest impact on annual rental income.**

Interpretations?

- 1. Unconstrained hosts derive utility from rivals paying slightly more to stay in their unit... even at expense of slightly lower rent rates?**
 - This is consistent both with the relatively small estimated markup (\$12) and the absence of any quantity effects.*
 - Would expect larger cross-sectional effects for superfans.*
- 2. Unconstrained hosts charge premium to forgo opportunity to attend the game themselves?**
 - I would have expected this primarily to show up in delistings.*
 - Are there distortions in resale prices for tickets for rival games?*
- 3. Unconstrained host derives disutility from rival fans celebrating in their unit?**
 - Expect larger listing premiums when the rival team is favored to win the game and/or when there is a larger gap in the rankings of the two teams?*

Sample Selection?

- The reported finding that unconstrained hosts set higher ask prices than constrained hosts is being driven by a relatively small number of the units on Airbnb.

	Total	Financially Constrained	Financially Unconstrained
Units listed in college towns	3,651		
+ Listed more than once	3,319		
+ Price changes at least once	2,123	816	845
+ Exclude shared units	1,320	536	572
	\$24.76 Table 2	\$20.09 Table 5B	\$31.99 Table 5A
+ Exclude professional hosts	976	394	427

- 36% of units with multiple listings do not change ask price, a choice plausibly correlated with financial constraints or disdain for rivals.
- It would like to see the comparable estimates for rows 2, 3, and 5.

Conclusion

- **This paper illustrates that “market” prices in sharing economy can be distorted by non-pecuniary considerations.**
- At some level, this is not surprising.
 - Maximizing expected utility is rarely the same thing as maximizing expected income or wealth.
- That said, the paper is definitely worth reading.
 - The data are cool...
 - ... the idea to focus on college sports rivalries is clever...
 - ... and empirical work in this early draft is already quite careful
- What would I like to see in the next version?
 - Analysis of price and quantity decisions across more samples...
 - ... more proxies for cross-sectional dispersion in disdain for rivals...
 - ... and some discussion of whether hosts are less likely over time to set ask prices that result in empty units (i.e., learning by doing)