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BUS 445-01

28 October 2020

Proposal: Should Airbnb Have Stricter Regulations

**Purpose**

The Airbnb business model consists of a peer-to-peer exchange of services where transactions and responsibilities are carried out exclusively by hosts and guests, limiting Airbnb’s liability entirely.

**Ethics Finance Theories**

Two of the main ethic finance theories that apply to this topic of Airbnb that will be discussed in the paper include Act Utilitarianism and the Veil of Ignorance.

*Act Utilitarianism* - is a utilitarian theory of ethics which states that a person's act is morally right if and only if it produces the best possible results in that specific situation. Airbnb as an organization is looking past the negative impact their business model is having on different regulations and focusing on the end results. Airbnb is justifying their moral behavior by the results they generate numerically.

*Veil of ignorance* -is a method of determining the morality of issues. It asks a decision-maker to make a choice about a social or moral issue and assumes that they have enough information to know. This type of theory in our paper is going to be used as a hypothetical of the stakeholders of the company to evaluate their business model and the morality behind it.

**Behavioral Finance Theories**

Two of the main behavioral finance theories that apply to this topic of Airbnb that will be discussed in the paper include the House Money Effect and the Herd Investing theory.

*House Money Effect* - is a theory used to explain the tendency of investors to take on greater risk when reinvesting profit earned through investing than they would when investing their savings or wages. A study that was conducted has found that many Airbnb hosts have appreciated their capital gains from their single rental property that they will invest in another property and list it for Airbnb.

*Herd investing* - is a situation in which market participants react to information about the behavior of other market agents or participants rather than the behavior of the market, and the fundamental transactions. Through Airbnb’s referral program they have implemented it has created this community of herd investing. By having new hosts react and act on the information and referral of other hosts and their positive behavior on renting, it is developing this herd of new investors.

**Secondary Reading (Min 4)**

There are a few specific secondary readings that we have covered in the class that will apply to the topic of our paper, specifically readings that were related to tax avoidance and corporate objectives. They apply to the Airbnb case in the following ways.

‘Multinational Tax Avoidance Crackdown Goes Far Beyond Apple’ discusses how large, Fortune 500 companies have been avoiding taxes through loopholes in the tax code. Airbnb’s platform has allowed hotels to list their rooms on the platform, allowing them to avoid certain hotel taxes and thus lower their tax bill. Airbnb might have been developed as a home rental service, but it is partially being used to lower corporate tax bills, and this issue must be addressed.

‘When It Comes to Tax Avoidance, Donald Trump’s Just a Small Fry’ talks about a similar perspective as the above article, highlighting the numbers of how much money is actually lost due to corporate tax loopholes. This article will help explain how much of an impact these policies and loopholes can have on society.

‘The Shareholder Value Myth’ discusses the impact that Shareholder Wealth Maximization can have on business and the impacts that this model can have on society. In Airbnb’s case, their app has negative externalities when it comes to the real world, so while shareholders might be making money, stakeholders are being negatively affected. This must be addressed by Airbnb.

‘The Truth About CSR’ discusses whether or not Corporate Social Responsibility is effective, and how companies can transform their CSR policies to maximize impact. With Airbnb’s case, this article will help to establish some potential solutions for the negative externalities that the company causes.