Session 9

Thursday April 2nd, 2026

The Economics of Entrepreneurship

Today, we will investigate the underlying economic forces that create opportunities and foster innovation.

Markets & Trends

Market Failures

Eg. OpenAI, Airbnb

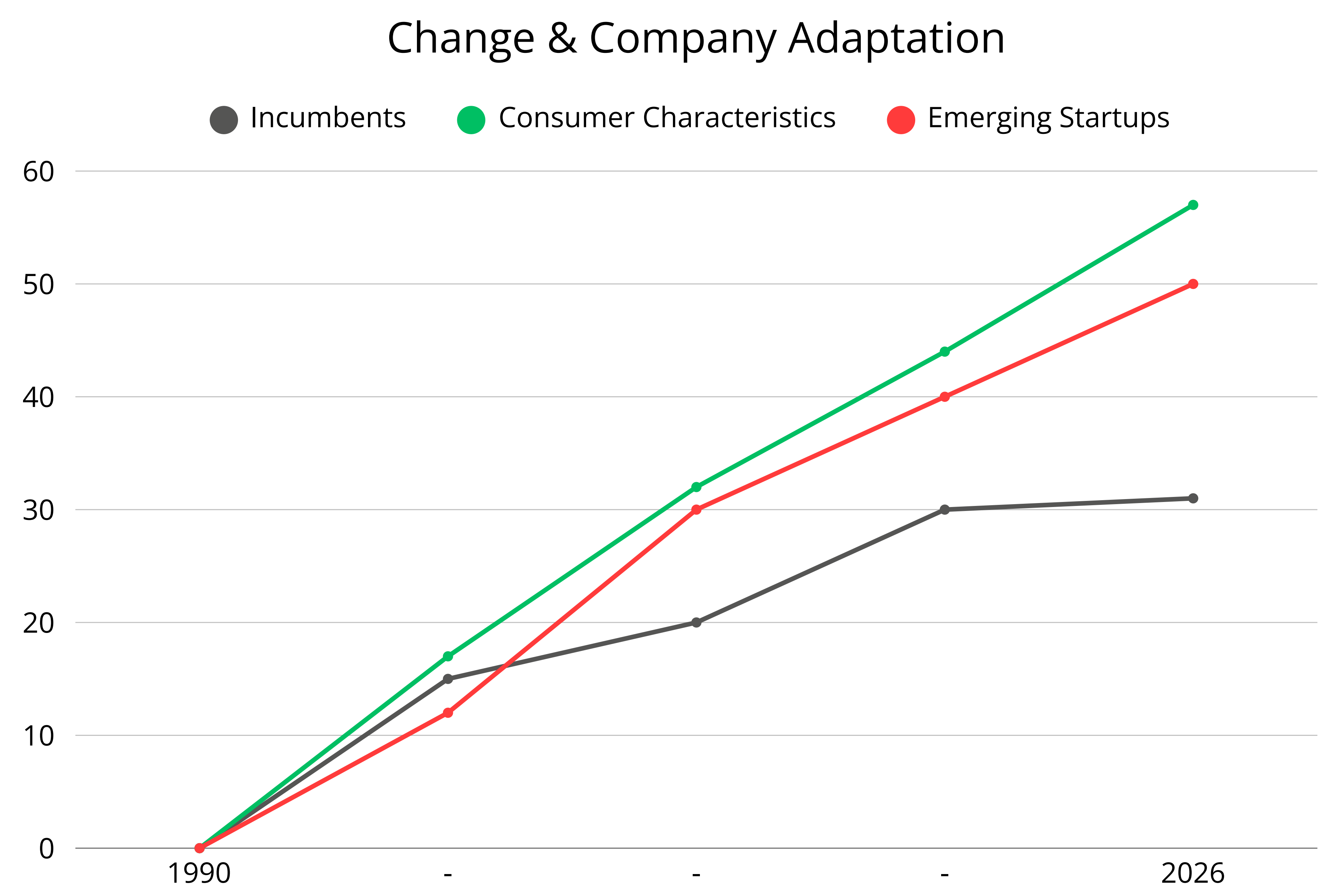
Markets sometimes don't allocate their resources efficiently,
- causing uncertainty to be present
- high costs to persist
- established companies to be unresponsive to changing market environments
- **Startups are meant to reduce uncertainty, lower costs, and accept the short-term downsides for the long-term upsides**

Tech Trends

Many startups' purposes have obvious catalysts:
- changes in cost
- production speed and ease of use
- **These factors can easily affect an entire industry**
- Eg. AI startups boomed in deployment because computing power crossed the **economic threshold**

"Entrepreneurship is just manipulating economic frictions"...

Demand Shifts



Individuals can change **much faster than actual infrastructure.**

- Demographics (aging generations)
- Socio-economic status (income)
- Cultural trends (lifestyle)

Incumbents (existing market dominators) lack as they are essentially serving "*yesterday's customer*".

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Winning a Market Economically

Competitive Edge

Either be better, cheaper, or be the "*middle-man*" (intermediary).

- Pioneer in cost reduction: operate cheaply, optimize
- Differentiate your product: unique selling point
- Leverage platform economics: connect two sides of a market, e.g., Uber

Some startup ideas fail because they ignore the competitive climate.

Avoid that by understanding...

First Mover vs. First Follower

Pioneers or real innovators get there FIRST.

- Develops brand recognition
- Early users and learning advantage

Negatively,

- High risk and market dependant
- Copyable and easy to get passed

Adherents or followers can get there BETTER.

- Learn from others' mistakes
- Lower risk
- Existing demand

Negatively,

- Competitive difficulty

Startups VS. Incumbents

Should AI innovation come from startups or mainstream tech companies?

Startups can afford to FAIL

Startups are designed to take risks; economically, they're making small bets with huge upside.

- Instead of optimizing, startups experiment
- Limited revenue streams to lose
- They target early adopters and ***today's customers***

Incumbents' sensitivity to CHANGES

Established companies are usually bad at disruption.

- They're built around existing users
- Existing pricing and expectations
- New ideas get rejected because they may seem premature
- Anti-innovative ideology that prioritizes **stable improvements over changes**

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Founder Economics

Founding teams fail when they inefficiently establish incentives.

Roles & Rewards

Equity splits dictate which team members get ownership over a part of the startup.

- Based on contribution and initiative
- Time commitment
- Skill

Building a Team

Founding teams are usually comprised of collaborative and skillful people

- Different members get different control and ownership
- Equal splits (eg. 33%, 33%, 33%) are beneficial when each founder puts in similar commitments

1. Opportunity

- Why does our idea actually exist?
- What is the economic imbalance?

2. Strategy

- How are we going to win the market?
- How will we achieve our goals?

3. Organization

- How do we structure people to facilitate our strategy?
- How will decisions get made?

4. Incentives

- What will motivate the team to persevere?
- How will the team be compensated?

Venture Creation

Execution is an Economic Problem

- Startups are experiments under capital constraints
- Startups sometimes fail because they burn capital faster than they can create value
- They test if demand actually exists, and if the idea is scaleable

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Today's Central Concept

"Entrepreneurship is applied economics under uncertainty."

Opportunities aren't RANDOM:

They come from *market frictions, trends, & demand shifts.*

A good idea is NOT necessarily a winning idea:

Mastering the art of *competition* and building a good team ***is.***

Startups only exist to be disruptors, meant to adapt to changes before established companies.

Today's Activity

Individually or in groups, research some startups that interest you from two of the most prominent venture capital firms.

Preferably from the most recent funding batches, establish some similarities and differences in how they have or plan to exploit the current economic environment, and how their innovative idea actually has a competitive edge.

Create a brief one-pager and present.

YCombinator

Andressen Horowitz

Thank you.

Looking forward to the next guest speaker, Anthony Mangoff, founder of “Tony’s Really Good Olive Oil”.

Please fill out the short questionnaire for the next session.

See you Thursday, April 16th!