

EE489 | Paper summary : Brown and Goolsbee (2002)

The question that paper tries to answer with the assumption is the internet may have fostered product differentiation and price discrimination more than price competition. The type of data that they used to answer the question is cross-sectional data. The author obtain the data on life insurance from LIMRA international that conducts annual surveys of purchase of individual life insurance contracts in the United States and the data on internet use from the Technographics 1999 survey of Forrester, the leading market research company on the information economy. They select only premium payer, insuring the life of only one person, age between 20-75, and without any other riders. Their regressions will attempt to explain the price paid for term policies. The dependent variable is the log of the annual premium per \$1,000 of face value of insurance. The internet variables are their main variables of interest. Another variables are age dummies, a nonsmoking dummy, a gender dummy, marital status dummies, and a dummy for whether the policy is rated. The results are prices seemed to fall most at the time the internet insurance comparison sites came online for term policies, whereas whole life policies remained constant.

Yes, I think the questions are interesting enough to know the information about the changes after the internet coming to affect online market. We know that prices of term insurance will be decreased after the customers can search the information from online channel. The economic theory that is used in this paper is third-degree price discrimination. Products sold in different market segments and different prices. The method that is adopted to answer research question is appropriate. The variables used in econometric models appropriate. In my opinion, the results are convincing because when customers can find information on the internet or online channel, it is more competitive in the market. Many companies have to reduce price from reducing some costs to compete with others.