

Brown and Goolsbee (2002) : Does the Internet make the market more competitive? Evidence from the life insurance industry

The improvement in efficiency of the internet and access to the internet of the customer reduced the search cost of information which led to the reduction of the term life insurance. This research was constructed in order to explain how the internet affected the reduction in price of the term life insurance and whether it makes the market more competitive.

The researchers used cross-sectional data to analyze the data set which was collected from the survey of 100,000 customers. The information was mostly about the computer ownership, Internet usage, and online buying behavior. The objective is to explain the price paid for term policies from the regression of the dataset.

The result from the analysis showed that the overall price of term life insurance was reduced by 8-15 percent. The increase in the internet usage might cause the price dispersion within the market but it is only for the initial stage which it will gradually decrease overtime as the internet usage increases. The reduction in search cost has a strong impact on the market and increases the benefits and welfare of the customer due to the competitive market structure.

According to the research paper, I personally believe that the result was quite convincing because it has been shown that the price of the term life insurance was decreased as the internet usage increased. The rise of the internet leads to more information to the customer which helps reduce the asymmetry of information about the price of the term life insurance. Therefore, the customer will benefit from the internet because they can search for the information and compare the price of the term life insurance to get the best possible deal.