

Summary of Brown and Goolsbee(2002) from the class discussion

In this paper, the authors tried to observe the impact of the internet on the Insurance market by making the research question as “Does the Internet make the market more competitive with the evidence from the insurance market?” The authors use the internet shopping comparison site as the means for relaying the information and putting them together in comparison for the consumers to see. From the primary observation, this shopping comparison site seems to have the impact of raising competitiveness in the insurance company from the year of 1992 to 1997. The authors used the controlled policy, group and individual as the controlling factors and found that the higher the percentage the consumers used the internet for researching the price of the insurance online grows, the prices of the insurance (quality adjusted) falls. This correlation is the clear result of the research by the author. The internet used for research by the consumers tends to raise the price dispersion initially and then reduce it later. In conclusion, the use of the internet can have a significant impact on not only the insurance market, but in other markets as well. In the insurance market, it is estimated to return the consumer surplus back to the consumers from 115 to 225 million dollars annually which could also rise up to 1 billion according to the paper. It just shows that the internet can have a real effect on the market power as it can see the consumer surplus gained at the expense of the producer’s profit and the trend continues.