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Brown and Goolsbee 2002

1. This paper want to find out that does the internet make markets more competitive or not? In other words, Does the decrease in cost of comparing price leads to the fall in price of term life insurance?

2. Hedonic regression was used in this research paper.

As they want to find the impact from the fall in cost of comparing price through internet with the price of the term life insurance overtime, the writer analyze a panel data of term and whole life insurance at the same time over 6 years periods (1992-1997).

The data is collected from 2 sources as follow:

1. Data of insurance price, insurance owner demographics (age, state of resident, occupation, and income), and insurance policy characteristic was obtained from LIMRA combining the data from 1992-1997 with approximately 10,812 sample already drop out sample without writer requirements) who buy from 46 insurance companies. However, there is no firm dummies as they do not include the firm identifier.
2. Data of growth of internet usage and online insurance research from Technographics 1999 survey of Forrester. Their basic measure of internet use for the group will be zero until 1996 since the insurance sites largely didn't begin until 1996.

The variables include in the regression are:

Dependent variable = log of the annual premium per $1000 of face value insurance

Dummies = Age, non smoking, gender, marital status, individual belongs to special risk class or not (rated), state (correlated to life expectancy), occupation (correlated to life expectancy), purchased insurance from own agent, participating policy, policy length, value of policy in real dollar

(log of the real amount, real amount in USD, real amount squared), year dummies which reflect the

cost of life insurance.

Independent variable = Monthly CPI, interest rate

3. The result shows a dramatic decline in price of term life insurance from 1992 to 1997 where the price fall a lot in 1996 and fall even more in 1997 due to the existence of insurance sites. However, as insurance sites did not cover the whole life policy. Thus, the price of whole life insurance remained constant or even rose slightly. The data also show, consistent with the theory, that increasing the probability of using the Internet tends to raise price dispersion initially and then reduce it as Internet usage continues to grow. Overall growth of Internet usage can potentially explain a significant share of the large price declines of the 1990s. The rise of the Internet from 1995 to 1997 appears to have reduced term life prices by about 8–15 percent.

4.I think this research topic is interesting because the existing empirical work has not support the theory that the increase in price competition and lower searching cost will leads to a lower price as previous study in some product category like book has found a large dispersion of price online or even price higher than offline counterparts. The main contribution of this research in my opinion can benefit both consumers and firm itself. For consumer, they should realize that the adoption of internet and moving toward online commerce will reduce their searching cost where the cost being reduce could be enormous during the 1990s. For the firm, the should make sure that their product has a unique value proposition so that its not homogeneous and become easily compared like what happened to term life insurance.

5. The economic theories use in this paper are

1: Stahl model which first refers to customer with positive search cost (1-u) or those who has the reservation price and will stop searching once they find the price below that and secondly, zero search cost (u) who has access to price quote of all the firm and will choose the lowest price. Given this basic idea, this theory state that

1.1 When some has zero search cost and some do not, we would expect to see price dispersion in equilibrium

1.2 As customer with no search cost increase (u), price should fall

1.3 The relationship between price dispersion and search cost is not monotonic. Therefore, from Stahl model, only internet user will benefit

2. Customers facing the same offer distribution can shift to lower price firm or firms can lower offer price (or both) which means that non-internet user can also see the price decline

6. I think Hedonic regression is appropriate for this paper as it can clearly show the impact of consumer online searching behavior on the price of term life insurance. At the same time, other factors that could impact the price of the insurance was take into account through dummy variables.

7. I personally think that the variable used in the model are very well thought from both consumer and insurance company side.

8. I think the results are convincing and was also reasonable in term of the theory as it is likely that consumer can choose the best deal from all offering when the searching cost decline. Speaking of some issue arising from the research such as the problem due to small sample size,the researcher also integrating noise and interaction dummies into their regression model and still get the same result which make their results become more convincing