Brown and goolsbee(2002) summary

This paper tries to provide empirical evidence on how internet comparison shopping sites affected the prices of life insurance in the 1990s as the internet may reduce search costs for consumers and thereby reduce prices. The market becomes more competitive with this situation. To answer the question, Time-series data was used in this research by conducting annual surveys of purchases of individual life insurance contracts in the United States. Each year, LIMRA uses a sample of approximately 30,000 policies issued by an average of 46 participating companies, collecting information on the policy characteristics and prices as well as some demographic information.However, these studies have found large dispersion of price on-line and price off-line counterparts. As well as LIMRA data has not asked the individuals directly whether they had checked insurance sites on-line which made it difficult to estimate the impact of the Internet on price. These studies found that life insurance consumers witnessed a large decline in the price of term life insurance as the actual fair pricing of a one-year term policy that pays out a face value of F on the last day of the year will depend on the probability of dying during the period, qa for an individual type of a, and on the interest rate r. Higher expected mortality rates(high q) and lower interest rates(r) raises the marginal cost and thus the premium. The result shows that prices are reduced when the interest rate rises. Moreover, it shows the dramatic decline in prices of term life insurance. Thus prices seem to fall most at the time the Internet insurance comparison sites came on-line.

I think these questions are interesting as we can know the behaviour of consumers as the rise of internet sites might lead people to buy their policies from less reputable companies by focusing competition mainly on price. Similarly, it might lead people to get lower-cost policies that are worse on some other dimensions that we cannot observe such as renewability, exclusions. The economic theory used in this paper is the search theory of Stahl. I think this model is appropriate but there are some mistakes as the data will not allow us to directly disentangle the effects. All in all, the results of this study are convincing me as the data are consistent with the theory and the hypothesis which has been set at the beginning.

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