

Brown and Goolsbee (2002)

Does the internet make markets more competitive? Evidence from life insurance Industry

This article conducted by Brown and Goolsbee wants to illustrate the impact of the internet on the price of life insurance. Before the introduction of the internet, search cost was high leading to high margins. The tool used to analyze the impact of the internet on life insurance's market price dispersion is 'Stahl model'. This study requires the data covering the period between 1992 to 1997 so the panel data collected from LIMRA is used. The result assures that an increase in internet usage tends to raise price dispersion in the first stage and then reduce it because internet usage continues to grow. The growth of internet before 1996, the period without the appeal of insurance comparison sites, failed to reduce the prices. Thus the ability of the internet to reduce search costs can have a significant impact on market power. The implications for the market value of on-line and off-line companies are crucial.

In my opinion, I think the research question is quite interesting since there is a large number of businesses engaging in internet usage. The internet usage plays an important role in determining market power and the price dispersion so it is useful for insurance industry and other industries as well. This paper applied Stahl model which is used for examining the impact of search cost and differential information on the distribution on market prices. I think the variables and method applied to this study are appropriate but there is a weak point which is the limitation of the information. The authors failed to gather the name of the company and the range of price so the effect of branding is not included in the variable. The result of this research is not that convincing because it follows theory of search cost but the problem emerging from information limitation can distort the hypothesis that the internet comparison sites caused customers to choose policies from lower-quality companies.