



The Public Defense
of the Doctoral Thesis in Economics
by

András Kiss

on

Essays on Consumer Search and Switching

will be held on

Monday, March 30, 2015 at 2:00 pm

in the

Monument Building, Senate room
Central European University
Nádor Street 9, Budapest

Thesis Committee:

Julius Horváth (Chair)

Andrzej Baniak (Internal member)

Sergey Lychagin (Internal member)

László Paizs (External member)

László Szakadát (External member)

Advisors:

Péter Kondor (Advisor)

Examiners:

Sergey Lychagin, Assistant Professor of Economics, Central European University, Budapest
(Internal Examiner)

José Luis Moraga-González, Professor of Microeconomics, VU University Amsterdam
(External Examiner)

The doctoral thesis is available for inspection
at the CEU Economics Department

Abstract

The thesis consists of three single-authored chapters on consumer search and switching behavior. Chapter 1 looks at markets where information intermediaries, such as price comparison websites, help people in their search for the best offers. I build a theoretical model to examine the economic forces that drive the market structure of platforms towards, or away from, monopolization, and conclude that the latter ones will prevail.

Chapters 2 and 3 are empirical investigations on the switching behavior of consumers in the auto liability insurance market in Hungary. Both chapters are based on a unique, contract-level dataset that I collected from an insurance brokerage firm. In Chapter 2, I exploit a change in market regulation to estimate the causal effect of an advertising campaign on switching rates. The campaign's effect is large and mainly works through drawing people's attention to the switching opportunity.

In Chapter 3, I employ the dataset on insurance contracts to estimate switching costs in the market. I modify a standard two-period multinomial choice model by including the possibility of inattention to switching, which turns out to be a significant improvement to the econometric model's fit to the data and produces much more plausible results.

I provide more details on the contributions of the three chapters of the thesis below.

Ch.1: Platform Competition with Price-Ordered Search

Chapter 1 contributes to the theoretical literature on competition between platforms in two-sided markets. I build a search model in which competing information platforms provide ordered price information to consumers, gathered from the sellers who voluntarily sign up for the advertising service. My central question is whether competition between platforms is sustainable, or the market will tip towards a monopoly provider. I find that multi-homing on the sellers' part, coupled with small frictions in buyer behavior, is sufficient to neutralize the positive cross-market externalities and prevent market tipping. When platforms can charge sellers for consumer traffic ("clicks"), the market achieves an efficient allocation. Without per-click charges, platforms will inefficiently restrict seller-to-seller competition to extract more surplus from consumers. The model's main application is the online comparison shopping industry.

Ch.2: Saliency and Switching

In Chapter 2, I estimate the effect of a consumer awareness campaign on contract switching decisions in auto liability insurance, and show that consumers' ignorance can be a major obstacle to switching service providers. For identification, I exploit a recent change in Hungarian regulation, which creates exogenous variation in the saliency of the switching opportunity for a subset of drivers. Using a unique micro-level dataset collected from an insurance intermediary, I find that the campaign increases switching rates by 12 percentage points from a baseline of 20 percent. In comparison, the estimated reduced-form relationship between financial incentives and switching decisions is much weaker: an additional saving of \$50 per year - or about one-third of the median annual premium - is associated with only 4 percentage points higher switching rates. From a policy perspective, my results indicate that consumers could derive considerable benefits from effective information-spreading and market education campaigns, as well as a market design that makes infrequent, but economically significant choice situations more salient.

Ch.3: Measuring Switching Costs in the Hungarian Auto Liability Insurance Market

Chapter 3 contributes to the literature on the measurement of consumer switching costs, using the dataset constructed in Chapter 2. Specifically, I estimate a structural model for contract switching in the Hungarian auto liability insurance market, allowing for switching costs and inattention to influence consumer decisions through separate channels. I find that inattention to the switching opportunity affects two-thirds of the population and explains consumer inertia to a large extent. Switching costs for attentive consumers are around \$65, but are vastly overestimated when inattention is not accounted for. I also show that a concentrated media campaign can increase awareness to the switching opportunity by 23 percentage points from a baseline of 29 percent.

CURRICULUM VITAE

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EDUCATION

Ph.D. Candidate in Economics, Central European University (CEU), Budapest, Hungary,
expected date of completion: March 2015

Thesis title: “Essays on Consumer Search and Switching”

Visiting Ph.D. student, Oxford University, Spring 2013

M.Sc. in Economics (with distinction), University College London, 2004-2005

Rajk László College for Advanced Studies, Budapest, 1999-2004

Joint BA / MA in Economics and Finance, Budapest University of Economic Sciences and
Public Administration (BUESPA), 1998-2004

RESEARCH INTERESTS

Primary fields: Industrial Organization, Applied Microeconomics

Secondary field: Behavioral Economics

PUBLICATIONS

Can Closer Integration Mitigate Market Power? A Numerical Modelling Exercise, in:
Towards More Integration of Central and Eastern European Electricity Markets, ed.: Dr.
Michael LaBelle, dr. Péter Kaderják, Regional Centre for Energy Policy Research, Corvinus
University of Budapest, Budapest, 2006.

A regionális árampiaci integráció hatása az erőművek piaci erőfölényére, in: Verseny és
szabályozás 2007, ed.: Pál Valentiny, Ferenc László Kiss, MTA Közgazdaságtudományi
Intézet, Budapest, 2008.

*Infrastrukturális fejlesztések szerepe a gázpiaci integrációban: Elemzések a Duna-régió
gázpiaci modellel* (co-authors: Péter Kaderják, László Paizs, Adrienn Selei, Pálma Szolnoki,

Borbála Tóth), in: Verseny és szabályozás 2012, eds: Pál Valentiny, Ferenc László Kiss, Csongor István Nagy, MTA KRTK Közgazdaság-tudományi Intézet, Budapest, 2013.

RELEVANT POSITIONS HELD

Research assistant to Ádám Szeidl, CEU, May-August 2012

Senior research associate, Regional Centre for Energy Policy Research, Corvinus University of Budapest, 2009-2011

Research associate, Regional Centre for Energy Policy Research, 2005-2009

GRANTS AND AWARDS

Award for Advanced Doctoral Students, CEU, 2015

Write-up Grant, CEU, July-November 2014

Doctoral Research Support Grant, CEU, Spring 2013

Best Teacher Award, Postgraduate Training in Energy Economics, Corvinus University, 2011

Academic Achievement Award for First-Year Doctoral Students, CEU, 2008

British Chevening Scholarship, 2004-2005

University Award for Academic Excellence, BUESPA, 2004

Heller Farkas Award, Rajk László College, 2004

CONFERENCE PRESENTATIONS

Annual Conference of the Mannheim Centre for Competition and Innovation (MaCCI), Mannheim, 2015

Annual Conferences of the Hungarian Society of Economists, Budapest, 2012-2014

39th Annual Conference of the European Association for Research in Industrial Economics (EARIE), Rome, 2012

Management and Economics of ICT, LMU Munich, 2012

Platform Markets: Regulation and Competition Policy, ZEW and University of Mannheim, 2010

TEACHING EXPERIENCE

Economics of Regulation (graduate), Eötvös Loránd University, 2014-2015

Microeconomics, Industrial Organization (business-oriented), Corvinus University, 2010-

2011

Microeconomic Theory, Mathematics Pre-Session, Mathematics of Dynamic Systems,
Econometrics (teaching assistance, graduate level), CEU, 2007-2009

Energy Economics (policy-oriented), Energy Regulators Regional Association, 2006-2011

Economics of Regulation (undergraduate), Corvinus University and Rajk College, 2006-2008

Microeconomic Theory (undergraduate), Rajk College, 2002-2004

REFEREEING

Review of Economic Studies

LANGUAGES

English (fluent), German (intermediate), Hungarian (native)

PERSONAL

Date of birth: April 25, 1979

Citizenship: Hungarian