Macroeconomics of the automobile industry assignment

Economics

It is a market that is dominated by a few large sellers, where the leading firms control most of the market and the smaller firms usually follow the leads Of those larger firms. The firms involved are selling a similar product, and interdependence between firms exists, which means they take into account the actions of one another as far as pricing. We can take a look last years top ten auto insurance companies in order to see how the market share is spread among the leaders (Hoc, 201 1). State Farm lead the auto insurance industry with a market share of 18. %, Allocate followed with a share of 10. %, Gecko holds 8. 2% of the market share, Progressive is slightly behind at 7. 5% market share, and Farmers holds 6. 4% of the share. After these top five companies, there is a drop in the overall market share beginning with Nationwide Mutual at 4. 5%, Liberty Mutual at 4. 5%, USA at 4. 1%, and Travelers at 2. 1%, and American Family Mutual at 2. 0% (Hoc, 201 1). The demand for auto insurance is relatively stable now that forty-nine states in the U. S. Require a minimum liability coverage plan. Consumers are now urging a higher service demand from their automobile insurance provider.

Shockingly, the top five insurance companies are not all favorites among consumers (Dandies, 2012). Providing excellent customer satisfaction, ease of claims, value of premium, renewing policyholders, and advertising to new consumers are important aspects that these competitors must possess. USA is the favorite among consumers, while Auto-Owners Insurance, Hartford Financial Services, State Farm, and 21st Century follows. State Farm is the only one of the top five market share leaders sit within the top five nonusers favorites (Dandies, 2012).

In order to measure out the elasticity of demand, we use the percentage change in quantity demanded in response to a percentage change in price. Factors that influence price elasticity of demand could nature of the product, availability of substitutes, and current pricing. In the auto insurance industry, the demand is considered perfectly inelastic or zero. This happens because law requires auto insurance, rates increase and decrease consistently, and there is insignificant product differentiation among policies. This simply means that as changes occur in rising from auto insurance providers, the demand remains unresponsive.

Auto insurance supplies know that they can charge higher prices for their services and increase profits. Example of Perfectly Inelastic Demand Because of the surplus of demand in obtaining auto insurance, premium rates will continue to remain competitive among the leaders and eventually could lead to a fall in the supply (Jason On Cars, 2010). Password estimated that in the time leading up to 201 2, there would be a fall in average annual rate of growth in auto insurance providers (Fishbowls, 2012). This can only ring increased profits and revenue for the leaders in the auto insurance industry.

Fishbowls estimated that the rise in revenue for the insurance industry could become 3. 9% annually. An auto insurance company’s demands are not influenced by changing economic cycles, and Fishbowls estimates because of price competition, current leaders could benefit due to the difficulty within the industry (Fishbowls, 2012). Another trend that could provide a supply deficit would be mergers and acquisitions. In 2009, Farmers Insurance acquired Gig’s auto insurance group (Farmers, 2009). This included he 21st

Century, and has positioned Farmers into becoming the third largest overall provider of insurance.

It could also become the largest provider In several states (Farmers, 2009). Fishbowls concludes by predicting that more leading insurance companies might continue to merge and continue their path to larger market shares (Fishbowls, 2012). In order to measure out the elasticity of supply, we use the percentage change in quantity supplied in response to a percentage change in price. The elasticity of supply among the auto insurance industry is considered to be elastic. The premium pricing competition among insurance providers leads to change in supply of providers.

Example Of Elastic Supply Advertising is considered the major advantage among the leading auto insurance industry providers. Competition between leading auto insurance providers does notes involve providing service, value pricing, and supply but also advertising. Perhaps it may have all began with the debut of Progressives spunky sales character, Flow (Schultz, 201 1). Consumers want to be entertained and attracted to the purchases they make. With Lactate’s arrest share dropping, they retaliated with their own character named Mayhem.

These two’0 auto insurers were catching the attention of consumers with their entertaining commercials and ads. In 2009, J. D. Power and Associates reported that the auto insurance industry spent a total for $4. 5 billion dollars in advertising. The Internet is another powerhouse in advertising for insurance providers. This is forcing auto insurance providers who have stuck to years of having traditional insurance agents to now providing online options such price quotes, policy management, and claim services (Schultz,

2011 Works Cited Dandies, A. (2012).