

The Economics of Search Pattern Innovation: A Real-life Case from China's Booming P2P Market

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ABSTRACT The aim of this paper is to detect booming peer-to-peer (P2P) online-lending growth in China from the perspective of market efficiency, by using monthly platform data from wdzj.com and employing a fixed-effect panel data model. It is found that with the increase of technical reserve, the platform's information service capacity has also improved. By sending effective investing message timely and actively, search costs of investors from that platform have been decreasing significantly. As a result, the dispersion of interest rate in China's P2P online-lending market has improved, which may potentially explain such a phenomenal growth from a market-efficiency perspective. It is also found that high-quality platforms are the pioneers of search pattern innovation.