

Restaurant Hygiene Grade Cards

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Objective



- In 1998, L.A. County introduced hygiene quality grade cards to be displayed in restaurant windows
- this improved product quality information to consumers on firms' choices of product quality

Prior to New Regulation



- Restaurants had been subject to hygiene inspections for many years prior to the change, but the new regulation requires that the results of the inspections be revealed to consumers
- Prior to the grade cards, restaurant revenue was insensitive to hygiene scores.

New Regulation

- With grade cards, obtaining an A-grade causes revenue to be 5% higher than a B-grade
- Restaurants, and especially consumers are very sensitive to the grade

Central Question

- Does an increase in the provision of information to consumers about the quality of firms' products, cause firms to improve the quality of their products?

Potential Impact of Info Disclosure

- Demand at good hygiene restaurants may then increase, and demand at poor hygiene restaurants may be lower
- prices may rise at good hygiene restaurants and fall at low hygiene restaurants
- If the cost of increasing hygiene quality is less than the benefit from facing higher demand, restaurants may make hygiene improvements.

(cont.)

- by revealing differences between restaurants, grade cards may also serve to increase the degree of product differentiation in the market
- It softens the degree of price competition, and leads to a higher average price
- Vice versa, consumers are less captive to particular restaurants, this could promote competition between restaurants, providing incentives for lower prices, better food quality, or improved hygiene quality
- Overall effect is ambiguous

The Effect of Hygiene Grade Cards on Hygiene Scores!





- Have hygiene scores improved?
- What about scores in places where the HGC were involuntary?

- Overall: The increased provision of information about hygiene quality causes an increase in average hygiene scores of restaurants, holds true in voluntary and mandatory cities.
- The stated goal of the HGC was to increase hygiene quality in LA restaurants.

Table 1

Mandatory Cards

- The estimated effect from mandatory disclosure of hygiene grade cards is an average increase in inspection scores of 4.40 points, or 5.3 percent.
- **This is evidence in favor of increased information to consumers causing quality improvements by firms.**

...and in voluntary situations?

- The estimated effect from voluntary disclosure of hygiene grade cards is an average increase in hygiene scores of 3.25 points, or 3.9 percent.
- The average effects, from both mandatory and voluntary disclosure, in the second quarter of 1998 are significantly higher than in the first quarter, and the effects in the third and fourth quarter are not significantly different from the second quarter. These results suggest the effects on hygiene from the grade cards are realized fairly rapidly.

HGC and Revenues

- Our dataset includes individual restaurants quarterly revenue
- The estimated coefficient from mandatory posting of grade cards for an A-grade restaurant is a 5.7% increase in revenue
- For B-grade restaurants, there is a 0.7% increase in revenues and there is a 1% decrease in revenues under mandatory disclosure.

Statistical and Econometric Findings

- Change of behavior among inspectors
- Decrease of food borne illnesses
- Decrease in physical structure violations

Statistical and Econometric Findings

- What does all this mean?
 - Grade cards → better hygiene improvements
 - Improves hygiene quality

Relation to Class Subjects

- Adverse Selection
 - The Hygiene Cards mitigates this problem
- Search Costs
 - Decreases search costs → increases competition
→ decrease in price

Summary

1. restaurant health inspection scores to increase
2. consumer demand to become sensitive to changes in restaurants' hygiene quality
3. the number of food borne illness hospitalizations to decrease.

Conclusion

- Providing people with better information causes people to change their purchase decisions and causes firms to modify their behavior, leading to improved health for people
- providing a standard-format for disclosure, with no change in inspections or closure criteria, would be sufficient to change the equilibrium from zero disclosure and low hygiene quality, to high hygiene quality with potentially full disclosure.⁷⁰