

Health Inspection and Quality of Care in Nursing Homes^{*}

Miao Guo^{†1} and Wendan Zhang^{‡2}

¹College of Finance and Statistics, Hunan University

²Department of Economics, University of Arizona

December 28, 2020

Abstract

There are ample studies evaluating various approaches to improving the quality of care in the U.S. nursing home industry. This paper assesses the dynamic inspections conducted by the Center of Medicare and Medicaid (CMS) to enforce quality improvement. We use a dynamic discrete choice model to estimate the value of the five-star rating system and the costs of investment, assuming that nursing homes invest in the quality of care to minimize the long-run compliance costs. Using the nationwide facility-quarter level data from 2014 to 2018, we estimate the investment cost to be around \$???. A back-of-the-envelope analysis shows that the average gain in consumer surplus in a nursing home is about \$ *** per investment. The study implies that such quality investment improves social welfare.

JEL Codes: I1, L1, L5

Keywords: Nursing Homes, Dynamic Discrete Choice, Quality of Care, Inspection, Enforcement, Star Rating, Fines, Deficiencies

^{*}We thank Mauricio Varela, Gautam Gowrisankaran, Mo Xiao, Keith Joiner, and Jakub Tecza for their helpful comments. We also thank participants at the SEA conference for their suggestions. All errors are ours.

[†]Email: miaoguo@email.arizona.edu.

[‡]Email: wzhang357@email.arizona.edu