Quality choice with reputation effects: Evidence from hospices in California

Rubaiyat Alam

September 21, 2022

Summary: I study how reputation influences consumer and firm choices in the context of hospices. Hospices give palliative care to terminally ill patients, and a strong measure of a hospice's quality of service is the average number of visits it makes to its patients. I define reputation of a hospice to be a nonlinear function of its past quality choices, meaning that a hospice can accumulate reputation over time by consistently choosing high quality. To see if reputation matters to consumers, I first estimate a structural model of hospice choice by consumers. I find reputation to have a strong influence on consumer demand and estimate that it decays at an annual rate of 47%. I incorporate this into a dynamic oligopoly model of hospices choosing quality to compete on reputation against rivals, and estimate it to recover hospices' cost functions. I find that an additional visit costs a hospice around $200, for-profits enjoy an efficiency advantage over non-profits, and hospices in rural counties suffer a cost disadvantage compared to those in urban counties. I use the estimated structural model to study alternative policies that can incentivize higher hospice quality. As reputation becomes more persistent, hospices choose higher quality. Hospices also choose higher quality as prices increase, but a hospice's response depends on how differentiated it is in terms of characteristics compared to its rivals. Finally, a hybrid per-day and per-visit hospice reimbursement scheme achieves the same quality at a lower cost than the current per-day scheme.

Full version coming soon.