

The Effect of Information on Product Quality: Evidence from Restaurant Hygiene Grade Cards

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Why Do We Care?

- Policy: Did hygiene grade cards improve restaurant hygiene and decrease food-borne illness?
- Economics: How do consumers and firms respond to information about product quality?



Data

- Panel data from 1996-1998 in LA county
- Restaurant health inspections
- Quarterly revenue for restaurants
- Hospitalizations from digestive disorders by month and zip code

Methodology and Research Design

- Large attrition in sample size (43%), but sample is still balanced
 - Due to matching and missing tax data
- Exogenous variation is given by:
 - Staggered adoption of mandatory grade cards provides exogenous variation
 - Plausibly exogenous if roll-out is due to bureaucratic lag
 - Passage of grade card legislation was rapid and unanticipated
 - Restaurant inspections are random

Contribution

- Grade cards increase health inspection scores by 5%
 - Firms actually increased quality, not a leniency in grading standards
 - An A-grade causes a 5% increase in revenue relative to a B-grade
 - Further supported by a 20% decrease in food-borne illness hospitalizations
- Voluntary disclosure allows firms to dishonestly signal quality

Things I Liked

- Very well written
- “Theory” section is approachable and easily applied, even with no math



Concerns

- Long-term effects
 - Do firms decrease quality over time
 - Regress to the true population “hygiene”
 - Grade inflation makes the cards carry less information

Extension

- Extend analysis over more time for long-term effects