

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

The article analyzes change in consumer behavior toward an increase in product quality information, in particular, hygiene quality grade to be displayed in restaurant windows in 1998 Los Angeles County which this paper mention as “the grade card”. The information disclosure was concerned as some restaurants cannot deal with the grade card due to profits involved if they decide to increase the hygiene rate. Hence the available information could affect the behavior of firms, the grade card contributes to three results. First, rising in restaurant health inspection scores. For instance, A-grade restaurants have the high levels in hygiene quality. By this they received A card which people could compare to other B-grade restaurants or C-grade which also be estimated to be an increase in revenue of 3.3 percent for A-grade restaurants. Second, increasing in elasticity of demand to changes in restaurants’ hygiene quality. By this is continuing from the first segment that mentioned, the estimated effects on revenues imply that demand is responsive to restaurant hygiene grade cards. And lastly, drop in number of patients from food borne illness. For example, inspectors may feel bad about giving a B-grade knowing that the restaurant will lose customers as a result. Therefore, it is impossible for the owners of B-grade restaurants to modify their grading with little or no change in restaurants’ actual hygiene quality. However, these results could not be accountable for only changes in consumer behavior that move from consuming high- grading restaurant rather than the lower one. Other factors are also considered in this study, for instance, the way that the consumers preserve their food and ingredients from supermarket. Data analytics was used in order to support effects from the cards. The author concludes that the grade cards cause improvements in hygiene quality. The study provides opportunities to that analyze mandatory disclosure could have similar effect to voluntary disclosure.