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Jin and Leslie (2003): The Effect of Information on Product Quality: Evidence From Restaurant Hygiene Grade Cards

The study examines whether the availability of information to consumer about the product's quality would increase the quality of firm's product quality or not under the case of restaurant hygiene grade cards in Los Angeles County. The research had discussed about impact of disclosure of such information, and regulations whether they have affected how they inspect the score, and impact on the revenue and foodborne illness hospitalizations.

For the impact of information disclosure, it would allow consumers to identify the differences across restaurants. Demand in good hygiene may increase then its price would be increased while the price at poor hygiene restaurant would fall. This can incentivize restaurant to improve the hygiene quality and mitigate asymmetric information. The consumers will now have lower search cost and become less captive to particular restaurant providing the incentives for lower the prices to compete.

The key findings of the study are the grade cards cause restaurant to increase the hygiene quality, cause consumers to become more sensitive to the restaurant hygiene, and cause the decrease by 20% in the incidence of foodborne illness hospitalization which is not fully explained by consumer sorting. The grade cards causes both people and the restaurant to change their behaviors which improve the overall health and welfare to the society and it should be encouraged the application of this policy in some other regions as well.

Borenstein (1989): Hubs and High fares: Dominance and Market Power in the U.S. Airline Industry

The paper tries to examine the source of market power for U.S. airlines that allow those airlines to charge the high price or taking advantage from such market power. There're many factors of the market power that occur naturally and those that result from instituition created by the airlines. One of the powers created naturally is the carrier offering the most of the flight to and from a city. Moreover, the airline with large-scale operations can somehow inhibit potential competitors' abilities to obtain gates and other facilities for the expansion of the service at the airport. The factors of dominance resulted from airlines' created institution relate to the flyer programs, reward system, and some bonuses for agents. The author of this paper has constructed the estimation equation of effect of route and airport dominance in two approaches. First is the pricing equation as a function of cost, market demand characteristics, service quality, and factors that are hypothesized to influence a carrier's market power. Second is the relative-price equation, this approach were conducted by the comparison of prices among carriers on the same route. The result shows that the dominant airline can charge the higher markup compare to other airlines that compete against this large-scale airline and the cost per passenger for the dominant one is relatively lower among those in the same airport.

Although, the hub formation usually bring the efficiency to the use of aircrafts and facilities of the airline but it appears to result in higher fares for consumers as the dominant airlines are those who form the hub. The cost savings due to the formation of the large-scale airline are not fully passed to the consumers but still increase the total surplus in form of profits.