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Quality Rating and Private-Prices: Evidence from the Nursing Home Industry[†]

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Abstract: We use the rollout of the five-star rating of nursing homes to study how private-pay prices respond to quality rating. We find that star rating increases the price differential between top- and bottom-ranked facilities. On average, prices of top-ranked facilities increased by 4.8 to 6.0 percent more than the prices of bottom-ranked facilities. We find stronger price effects in markets that are less concentrated where consumers may have more choices of alternative nursing homes. Our results suggest that with simplified design and when markets are less concentrated, consumers are more responsive to quality reporting.

Keywords: Market Competition, Nursing Home, Price, Public Reporting, Quality Rating

JEL Codes: I11, I18

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