Imperfect Information in a Quality-Competitive Hospital Care Market

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Abstract

This paper addresses the issue of releasing information about hospital quality to the public when patients can choose the hospital they visit for treatment. We analyse the effect of improving the accuracy of patients' information about hospital quality in a quality-competitive duopoly model. The direction of the effect depends on the the difference between the two hospitals' quality production technologies. For a small difference in the hospitals' technologies, improving patients' information leads to higher equilibrium quality of both hospitals and increases the difference between the quality levels. When there is a large difference between the two hospitals quality production technologies, improved patient information reduces quality levels.