

Information Asymmetries Between Parents and Educators in German Day Care Centers

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Abstract:

Economic theory predicts market failure in the market for early childhood education and care (ECEC) due to information asymmetries. These theoretically occur because ECEC are service goods and parents often find it difficult to observe their quality. Quality of ECEC services is of special interest due to its potential long-term consequences on individuals' lives.

In our paper we empirically investigate information asymmetries between parents and ECEC providers in Germany. We investigate if information asymmetries exist and if so, for which types of quality aspects. Moreover, we analyze if information asymmetries are related to the socioeconomic background of the parents or to center characteristics. We make use of a unique extension study of the German Socio-Economic Panel (SOEP) and *Familien in Deutschland* (FiD), which allows us to compare quality information by parents and 734 ECEC institutions. We find considerable information asymmetries between parents and providers in the German ECEC market. They differ across quality aspects but only little due to socio-economic background of the parents or center characteristics.

Our contribution to the literature is twofold: First, we look at information asymmetries in a highly regulated market compared to previous studies of the US ECEC market which is less regulated. Second, by comparing the buyers' and the sellers' perspectives', we analyze a different type of information asymmetries than the literature has previously done. An implication of our finding is that availability of information about ECEC quality should be improved in Germany.