



Week 12: *Heterogeneity*

 EMSE 6035: Marketing Analytics for Design Decisions

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 November 13, 2024

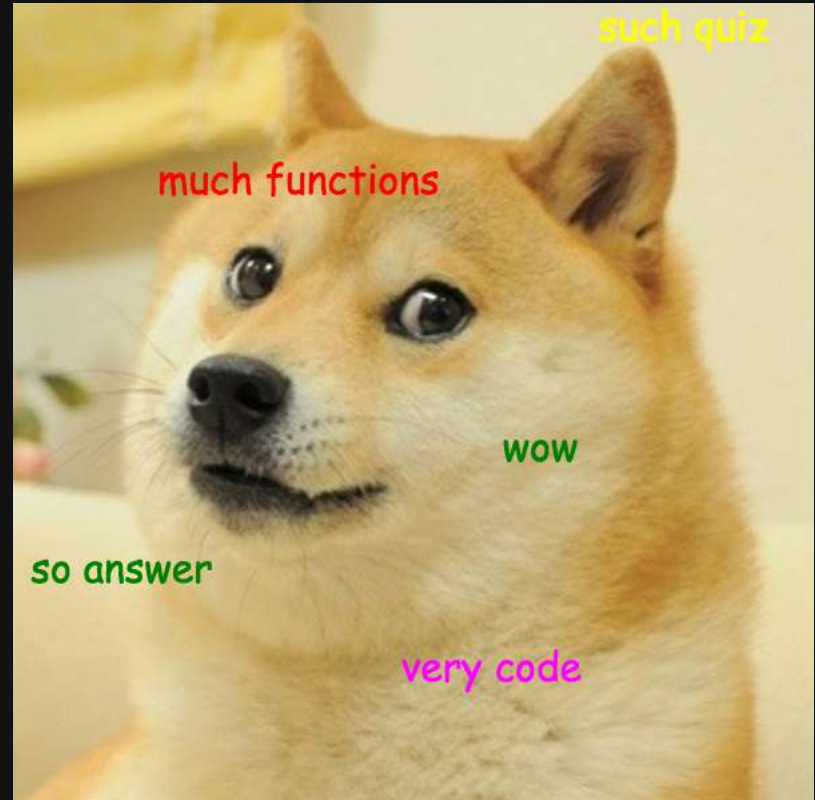
Quiz 5 - last one!

Download the template from the #class channel

Make sure you unzip it!

When done, submit your **quiz5.qmd** on Blackboard

10:00



Houskeeping items

- **Final presentations** will be on 12/11 during normal class hours. You can pre-record a video presentation if you want, or you can do it live.
- **Final Analysis** (due 12/08) will also be an html page report.
- I am planning on posting all final analyses (without grades) to the course site as a showcase for future students - **please DM me if you would NOT like your report posted.** ([examples](#) from last year)

Week 12: *Heterogeneity*

1. Mixed logit (unobserved heterogeneity)
2. Sub-group modeling (observed heterogeneity)

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Two ways of modeling heterogeneity

"Observed Heterogeneity"

Interaction Models			
Group 1		Group 2	
Estimate	Std. Err.	Estimate	Std. Err.
$\hat{\beta}_1$	σ_1	$\hat{\beta}_1$	σ_1
$\hat{\beta}_2$	σ_2	$\hat{\beta}_2$	σ_2
\vdots	\vdots	\vdots	\vdots
$\hat{\beta}_m$	σ_m	$\hat{\beta}_m$	σ_m

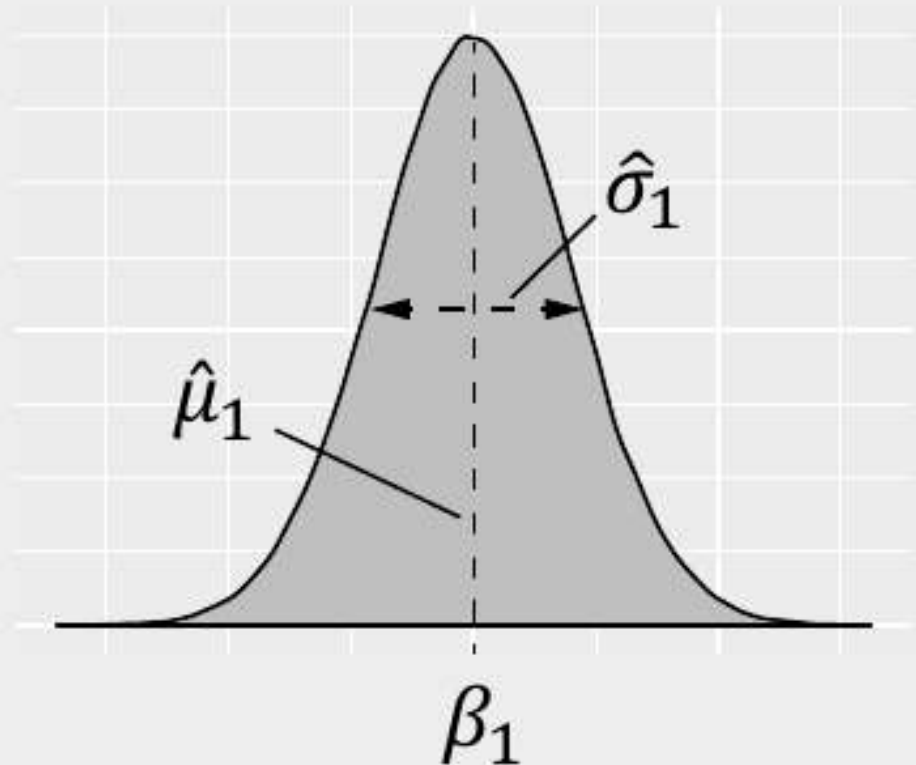
"Unobserved Heterogeneity"

Estimate a "mixed" logit
(a.k.a. hierarchical) model

Estimate
$\hat{\beta}_1 \sim N(\hat{\mu}_1, \hat{\sigma}_1)$
$\hat{\beta}_2 \sim N(\hat{\mu}_2, \hat{\sigma}_2)$
\vdots
$\hat{\beta}_m \sim N(\hat{\mu}_m, \hat{\sigma}_m)$

Mixed logit

Preference parameters follow a distribution
across sample population



$$\tilde{u}_j = \beta_1 x_j + \varepsilon_j$$

$$\beta_1 \sim N(\mu_1, \sigma_1)$$

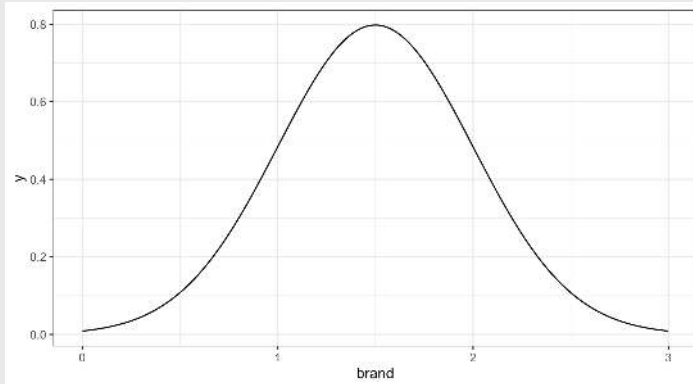
Parameter	Estimate	Standard Error
μ_1	0.1	0.01
σ_1	0.1	0.01

Which distribution should I use?

Normal distribution

When preferences can be positive or negative

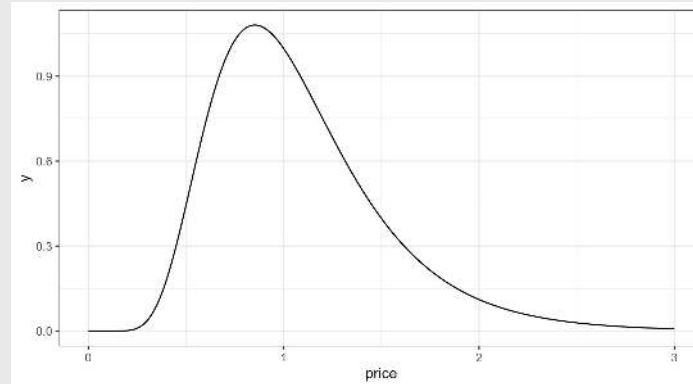
e.g. `brand = "n"`



Log-normal distribution

When preferences should be strictly positive

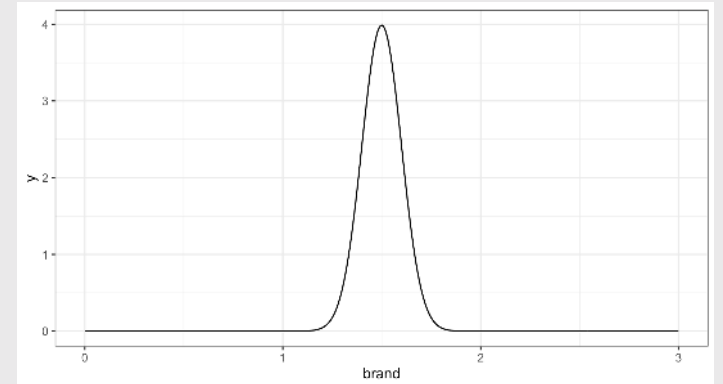
e.g. `-1*price = "ln"`



Fixed parameter

When preferences appear to be homogeneous

(e.g. σ is very small)



Mixed logits are not equivalent in Preference vs. WTP space

Preference space

$$\tilde{u}_j = \alpha p_j + \beta x_j + \varepsilon_j$$

$$\alpha \sim \ln N(\mu_1, \sigma_1)$$

$$\beta \sim N(\mu_2, \sigma_2)$$

Mixed logits are not equivalent in Preference vs. WTP space

Preference space

$$\tilde{u}_j = \alpha p_j + \beta x_j + \varepsilon_j$$

$$\alpha \sim \ln N(\mu_1, \sigma_1)$$

$$\beta \sim N(\mu_2, \sigma_2)$$

$$\omega = \frac{\beta}{-\alpha} = \frac{N(\mu_2, \sigma_2)}{-\ln N(\mu_1, \sigma_1)}$$

WTP space

$$\tilde{u}_j = \lambda(\omega_1 x_j - p_j) + \varepsilon_j$$

$$\omega_1 \sim N(\mu_1, \sigma_1)$$

Practice Question 3

a) Use the `logitr` package to estimate the following homogeneous model:

$$\tilde{u}_j = \beta_1 x_j^{\text{price}} + \beta_2 \delta_j^{\text{feat}} + \beta_3 \delta_j^{\text{dannon}} + \beta_4 \delta_j^{\text{hiland}} + \beta_5 \delta_j^{\text{weight}} + \varepsilon_j$$

where the three δ coefficients are dummy variables for Dannon, Hiland, and Weight Watchers brands (Yoplait is the reference level).

b) Use the `logitr` package to estimate the same model but with the following mixing distributions:

- $\beta_1 \sim \text{N}(\mu_1, \sigma_1)$
- $\beta_2 \sim \text{N}(\mu_2, \sigma_2)$

Estimating mixed logit models with `logitr`

1. Open `logitr-cars`
2. Open `code/8.1-model-mxl.R`

Your Turn

10:00

As a team, re-estimate the main model you used in your pilot analysis report, but now using a mixed logit model.

Carefully consider which distributions to use (i.e., normal or log-normal) for different variables.

Week 12: *Heterogeneity*

1. Mixed logit (unobserved heterogeneity)
2. **Sub-group modeling (observed heterogeneity)**

Two ways of modeling heterogeneity

"Observed Heterogeneity"

Interaction Models			
Group 1		Group 2	
Estimate	Std. Err.	Estimate	Std. Err.
$\hat{\beta}_1$	σ_1	$\hat{\beta}_1$	σ_1
$\hat{\beta}_2$	σ_2	$\hat{\beta}_2$	σ_2
\vdots	\vdots	\vdots	\vdots
$\hat{\beta}_m$	σ_m	$\hat{\beta}_m$	σ_m

"Unobserved Heterogeneity"

Estimate a "mixed" logit
(a.k.a. hierarchical) model

Estimate
$\hat{\beta}_1 \sim N(\hat{\mu}_1, \hat{\sigma}_1)$
$\hat{\beta}_2 \sim N(\hat{\mu}_2, \hat{\sigma}_2)$
\vdots
$\hat{\beta}_m \sim N(\hat{\mu}_m, \hat{\sigma}_m)$

Use interactions to model preferences for multiple groups

Homogenous model:

$$\tilde{u}_j = \beta_1 x_j + \varepsilon_j$$

Two groups: A & B

$$\begin{aligned}\tilde{u}_j &= \beta_1 x_j + \beta_2 x_j \delta^B + \varepsilon_j \\ &= (\beta_1 + \beta_2 \delta^B) x_j + \varepsilon_j\end{aligned}$$

Par.	Meaning
β_1	Effect of x_j for group A
β_2	<i>Difference</i> in effect of x_j between groups

What's the difference?

Separate models 

$$\tilde{u}_j^A = \beta_1^A x_j + \varepsilon_j^A$$

$$\tilde{u}_j^B = \beta_1^B x_j + \varepsilon_j^B$$

Single model 

$$\tilde{u}_j = \beta_1 x_j + \beta_2 x_j \delta^B + \varepsilon_j$$

Accounting for scale differences

Separate models 

$$\tilde{u}_j^A = \alpha^A p_j + \beta_1^A x_j + \varepsilon_j^A$$

$$\tilde{u}_j^B = \alpha^B p_j + \beta_1^B x_j + \varepsilon_j^B$$

Single model 

$$\tilde{u}_j = \alpha_1 p_j + \alpha_2 p_j \delta^B + \beta_1 x_j + \beta_2 x_j \delta^B + \varepsilon_j$$

$$= (\alpha_1 + \alpha_2 \delta^B) p_j + (\beta_1 + \beta_2 \delta^B) x_j + \varepsilon_j$$

Imagine you got the following results

- $\hat{\alpha}^A = 100$
- $\hat{\beta}^A = 200$
- $\hat{\alpha}^B = 1$
- $\hat{\beta}^B = 2$

Accounting for scale differences

Preference Space 

$$\tilde{u}_j^A = \alpha^A p_j + \beta_1^A x_j + \varepsilon_j^A$$

$$\tilde{u}_j^B = \alpha^B p_j + \beta_1^B x_j + \varepsilon_j^B$$

WTP Space 

$$\tilde{u}_j^A = \lambda^A (\omega_1^A x_j - p) + \varepsilon_j^A$$

$$\tilde{u}_j^B = \lambda^B (\omega_1^B x_j - p) + \varepsilon_j^B$$

Imagine you got the following results

- $\hat{\alpha}^A = 100$
- $\hat{\beta}^A = 200$
- $\hat{\alpha}^B = 1$
- $\hat{\beta}^B = 2$

$$\omega = \frac{\beta}{-\alpha}$$

- $\hat{\omega}^A = 200 / (-100) = -2$
- $\hat{\omega}^B = 2 / (-1) = -2$

Practice Question 1

Suppose we estimate the following utility model describing preferences for cars:

$$\tilde{u}_j = \beta_1 x_j^{\text{price}} + \beta_2 x_j^{\text{mpg}} + \beta_3 x_j^{\text{elec}} + \varepsilon_j$$

- a) Using interactions, write out a model that accounts for differences in the effects of x_j^{price} , x_j^{mpg} , and x_j^{elec} between two groups: A and B.
- b) Write out the effects of x_j^{price} , x_j^{mpg} , and x_j^{elec} for each group.

Practice Question 2

Suppose we estimate the following utility model describing preferences for chocolate bars between two groups: A & B

$$\tilde{u}_j = \beta_1 x_j^{\text{price}} + \beta_2 x_j^{\text{cacao}} + \beta_3 x_j^{\text{price}} \delta_j^{\text{B}} + \beta_4 x_j^{\text{cacao}} \delta_j^{\text{B}} + \varepsilon_j$$

The estimated model produces the following coefficients and hessian:

$$\beta = [-0.7, 0.1, 0.2, 0.8]$$

$$H = \begin{bmatrix} -6000 & 50 & 60 & 70 \\ 50 & -700 & 50 & 100 \\ 60 & 50 & -300 & 20 \\ 70 & 100 & 20 & -6000 \end{bmatrix}$$

a) Use the `mvrnorm()` function from the `MASS` library to generate 10,000 draws of the model coefficients.

b) Use the draws to compute the mean WTP and 95% confidence intervals of the effects of x_j^{price} and x_j^{cacao} for each group (A & B).

Estimating mixed logit models with `logitr`

1. Open `logitr-cars`
2. Open `code/8.2-model-mnl-groups.R`

Your Turn

Do this individually, and compare with your teammates:

- Examine the demographic and other variables in your pilot data and specify a model that estimates differences between different groups.
- Write code to estimate that model (or multiple models, e.g. WTP space models).
- Compute and compare WTP across the different groups.