

Comments on Assignment # 4

1. For the likelihood ratio test, the null hypothesis is that the models are the same (that is, the male/female models are the same and the one-price-parameter and three-price parameter models are the same). So when you get a probability level, your statement should always be “we are XX.X% confident that the models are not the same”.
2. Elasticities for indicator variables need to be multiplied by 100 to give percent. You should do this when you report the elasticities in tables (that is, multiply them by 100).
3. Marginal effects should not be above 1.0 in logit models since this would give a probability of greater than 1. The way NLOGIT computes marginal effect it is mathematically possible to get marginal effects above 1.0 because a one-unit increase may be beyond the bound of the data. For example, the highest price variable may be \$0.35. A one unit increase would give \$1.35 which is way beyond anything in the data. The solution would be to use cents instead of dollars as the X variable.