

“Demand estimation with unobserved choice set heterogeneity”

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Abstract

We present a method to estimate demand parameters in the presence of unobserved choice set heterogeneity that is related to Chamberlain (1980)'s Fixed Effect logit. We rely on assumptions about the stability or evolution of choice sets over at least two choice occasions to difference out unobserved-to-the-econometrician choice sets and to consistently estimate preference parameters. We present specification tests and illustrate ideas using household-level scanner data in the market for ketchup in the UK. Our results show that failing to account for unobserved choice set heterogeneity can lead to biases in the estimation of preference parameters and their functions.