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EXERCISE SESSION 8: QUESTIONS FOR STUDENTS

Try to answer the following question by consulting the textbook and the lecture slides:

Let  $U_{n,m} = \beta_m + \alpha_m \text{cost}_{n,m} + \gamma_m \text{time}_{n,m}^{\lambda_m} + \varepsilon_{n,m}, \forall n, m$ . Assume that the choice model is a logit. What is the point elasticity of the probability of choosing  $m$  for individual  $n$  with respect to (i)  $\text{cost}_{n,m}$  and (ii)  $\text{cost}_{n,k}, k \neq m$ ?

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mbi/ ek/ afa/ mdl