



# A latent class model for discrete choice analysis: contrasts with mixed logit

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## Abstract

The multinomial logit model (MNL) has for many years provided the fundamental platform for the analysis of discrete choice. The basic model's several shortcomings, most notably its inherent assumption of independence from irrelevant alternatives have motivated researchers to develop a variety of alternative formulations. The mixed logit model stands as one of the most significant of these extensions. This paper proposes a semi-parametric extension of the MNL, based on the latent class formulation, which resembles the mixed logit model but which relaxes its requirement that the analyst makes specific assumptions about the distributions of parameters across individuals. An application of the model to the choice of long distance travel by three road types (2-lane, 4-lane without a median and 4-lane with a median) by car in New Zealand is used to compare the MNL latent class model with mixed logit.

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## 1. Introduction

Although the multinomial logit model (MNL) has provided the foundation for the analysis of discrete choice modeling, its basic limitations, most notably its assumption of independence from irrelevant alternatives (IIA) have motivated researchers to consider alternative specifications. The mixed logit model (McFadden and Train, 2000; Hensher and Greene, in press) is probably the most significant among a number of recent innovations in terms of the range of behavior it can

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accommodate and its overall flexibility. The latent class model (LCM) proposed in this paper is in some respects a semiparametric variant of the MNL that resembles the mixed logit model. It is somewhat less flexible than the mixed logit model in that it approximates the underlying continuous distribution with a discrete one, however, it does not require the analyst to make specific assumptions about the distributions of parameters across individuals. Thus, each model has its limitations and virtues. This paper will compare the two models in the context of an application to the choice of long distance travel by three road types (2-lane, 4-lane without a median and 4-lane with a median) by car in New Zealand.

## 2. The latent class model

The LCM for the analysis of individual heterogeneity has a history in several literatures. (See Heckman and Singer, 1984 for theoretical discussion.) However, a review of the literature suggests that the vast majority of the received applications have been in the area of models for counts using the Poisson or negative binomial models. See Nagin and Land (1993) for an application and Greene (2001) for a survey of the literature. The model has had limited application to the analysis of discrete choice among multiple alternatives. Two exceptions are Swait (1994) and Bhat (1997).

The underlying theory of the LCM posits that individual behavior depends on observable attributes and on latent heterogeneity that varies with factors that are unobserved by the analyst. We propose to analyze this heterogeneity through a model of discrete parameter variation. Thus, it is assumed that individuals are implicitly sorted into a set of  $Q$  classes, but which class contains any particular individual, whether known or not to that individual, is unknown to the analyst. The central behavioral model is a logit model for discrete choice among  $J_i$  alternatives, by individual  $i$  observed in  $T_i$  choice situations,

$$\text{Prob}[\text{choice } j \text{ by individual } i \text{ in choice situation } t | \text{class } q] = \frac{\exp(\mathbf{x}'_{it,j} \boldsymbol{\beta}_q)}{\sum_{j=1}^{J_i} \exp(\mathbf{x}'_{it,j} \boldsymbol{\beta}_q)} = F(i, t, j | q). \quad (1)$$

The number of observations and the size of the choice set may vary by individual. In principle, the choice set could vary by choice situation as well. The probability for the specific choice made by an individual can be formulated in several ways; for convenience, we allow  $y_{it}$  to denote the specific choice made, so that the model provides

$$P_{it|q}(j) = \text{Prob}(y_{it} = j | \text{class} = q). \quad (2)$$

For convenience, we simplify this further to  $P_{it|q}$ . We have used a generic notation for the density of the random variable of interest to suggest that this formulation will provide a means of extending the LCM to other frameworks, though we restrict our attention herein to the discrete choice model. Note that this is a ‘panel data’ sort of application in that we assume that the same individual is observed in several choice situations.

We assume that given the class assignment, the  $T_i$  events are independent. (This is a possibly strong assumption, especially given the nature of the sampling design used in our application—a stated choice experiment in which the individual answers a sequence of survey questions. In fact,

there might well be correlation in the unobserved parts of the random utilities. The latent class does not readily extend to autocorrelation, so we have left this aspect for further research.) Thus, for the given class assignment, the contribution of individual  $i$  to the likelihood would be the joint probability of the sequence  $\mathbf{y}_i = [y_{i1}, y_{i2}, \dots, y_{iT}]$ . This is

$$P_{i|q} = \prod_{t=1}^{T_i} P_{it|q}. \quad (3)$$

The class assignment is unknown. Let  $H_{iq}$  denote the prior probability for class  $q$  for individual  $i$  (we consider posterior probabilities below). Various formulations have been used (see Greene, 2001). For this application, a particularly convenient form is the multinomial logit:

$$H_{iq} = \frac{\exp(\mathbf{z}_i' \boldsymbol{\theta}_q)}{\sum_{q=1}^Q \exp(\mathbf{z}_i' \boldsymbol{\theta}_q)}, \quad q = 1, \dots, Q, \quad \boldsymbol{\theta}_Q = \mathbf{0}, \quad (4)$$

where  $\mathbf{z}_i$  denotes a set of observable characteristics which enter the model for class membership. Roeder et al. (1999), using this same formulation, denote  $\mathbf{z}_i$  the ‘risk factors’. The  $Q$ th parameter vector is normalized to zero to secure identification of the model (Greene, 2003, Chapter 21). There may be no such covariates, in which case, the only element in  $\mathbf{z}_i$  would be the constant term, ‘1’, and the latent class probabilities would be simple constants which, by construction, sum to one. The likelihood for individual  $i$  is the expectation (over classes) of the class-specific contributions:

$$P_i = \sum_{q=1}^Q H_{iq} P_{i|q}. \quad (5)$$

The log likelihood for the sample is

$$\ln L = \sum_{i=1}^N \ln P_i = \sum_{i=1}^N \ln \left[ \sum_{q=1}^Q H_{iq} \left( \prod_{t=1}^{T_i} P_{it|q} \right) \right]. \quad (6)$$

Maximization of the log likelihood with respect to the  $Q$  structural parameter vectors,  $\boldsymbol{\beta}_q$  and the  $Q - 1$  latent class parameter vectors,  $\boldsymbol{\theta}_q$  is a conventional problem in maximum likelihood estimation. Greene (2001) discusses the mechanics and various aspects of estimation. In comparison to more familiar maximum likelihood problems, this is a relatively difficult optimization problem, though not excessively so. For a given choice of  $Q$ , the choice of good starting values seems to be crucial. The asymptotic covariance matrix for the full set of parameter estimators is obtained by inverting the analytic second derivatives matrix of the log likelihood function.

An issue to be confronted is the choice of  $Q$ , the number of classes. This is not a parameter in the interior of a convex parameter space, so one cannot test hypotheses about  $Q$  directly. If there is a known  $Q^*$  that is greater than the ‘true’  $Q$ , then it is possible to ‘test down’ to  $Q$  by using, for example likelihood ratio tests. A model with  $Q + 1$  classes encompasses one with  $Q$  if the parameters in any two of the  $Q + 1$  classes are forced to equality. This does move the problem up one level, since the  $Q^*$  must now be assumed known, but testing down from a specified  $Q^*$  is straightforward. (‘Testing up’ from a small  $Q$  (one) is not valid, since the estimates obtained for

any model that is too small are inconsistent.) Roeder et al. (1999) suggest using the Bayesian information criterion

$$\text{BIC}(\text{model}) = \ln L + \frac{(\text{model size}) \ln N}{N}. \quad (7)$$

With the parameter estimates of  $\theta_q$  in hand, the prior estimates of the class probabilities are  $\hat{H}_{iq}$ . Using Bayes theorem, we can obtain a posterior estimate of the latent class probabilities using

$$\hat{H}_{q|i} = \frac{\hat{P}_{i|q} \hat{H}_{iq}}{\sum_{q=1}^Q \hat{P}_{i|q} \hat{H}_{iq}}. \quad (8)$$

The notation  $\hat{H}_{q|i}$  is used to indicate the person-specific estimate of the class probability, conditioned on their estimated choice probabilities, as distinct from the unconditional class probabilities which enter the log likelihood function. A strictly empirical estimator of the latent class within which the individual resides would be that associated with the maximum value of  $\hat{H}_{q|i}$ . We may also use these results to obtain posterior estimates of the individual-specific parameter vector

$$\hat{\beta}_i = \sum_{q=1}^Q \hat{H}_{q|i} \hat{\beta}_q. \quad (9)$$

The same result can be used to estimate marginal effects in the logit model;

$$\sigma_{km,ij|q} = \frac{\partial \ln F(i, t, j|q)}{\partial x_{it,km}} = x_{it,km} [1(j = k) - F(i, t, k|q)] \beta_{m|q} \quad (10)$$

for the effect on individual  $i$ 's choice probability  $j$  in choice situation  $t$  of attribute  $m$  in choice probability  $k$ . The posterior estimator of this elasticity is

$$\hat{\sigma}_{km,tj|i} = \sum_{q=1}^Q \hat{H}_{q|i} \hat{\sigma}_{km,tj|q}. \quad (11)$$

An estimator of the average of this quantity over data configurations and individuals would be

$$\hat{\sigma}_{km,j} = \frac{1}{N} \sum_{i=1}^N \frac{1}{T_i} \sum_{t=1}^{T_i} \hat{\sigma}_{km,tj|i}. \quad (12)$$

### 3. The mixed logit model

The MLM is similar to the LCM, but embodies several important differences as well. The central equation for the choice probability is

$$\text{Prob}[\text{choice } j \text{ by individual } i \text{ in choice situation } t] = \frac{\exp(\mathbf{x}'_{it,j} \beta_i)}{\sum_{j=1}^{J_i} \exp(\mathbf{x}'_{it,j} \beta_i)} = P_{it} | \beta_i. \quad (13)$$

The  $K$  model parameters are continuously distributed across individuals with

$$\beta_i = \beta + \Delta z_i + \Gamma v_i, \quad (14)$$

where  $z_i$  may be a vector of individual characteristics that affect the mean of the random parameter distribution and  $\Delta$  is the associated parameter matrix. The underlying random effect,  $v_i$  is characterized by

$$E[v_i] = 0, \quad \text{Var}[v_i] = \Sigma = \text{diag}[\sigma_1, \dots, \sigma_k] \quad (15)$$

and where  $\sigma_k$  is a *known* constant. The variances and covariances of the joint distribution of  $\beta_i$  are parametrized in the unknown lower triangular matrix  $\Gamma$  which is to be estimated. Since  $\Gamma$  is unknown, the assumption that  $\sigma_k$  is known is of no consequence. Where parameters are marginally normally distributed, for example,  $\sigma_k = 1$  while if they have a logistic distribution,  $\sigma_k = \pi^2/3$ . The variance of the distribution of the parameters is

$$\Omega = \Gamma \Sigma \Gamma'. \quad (16)$$

As before,  $T_i$  observations are made on each individual. The conditional contribution to the likelihood is

$$P_i | v_i = \prod_{t=1}^{T_i} P_{it} | v_i. \quad (17)$$

In order to form the unconditional likelihood, it is necessary to integrate  $v_i$  out of the joint probability. Thus,

$$P_i = \int_{v_i} P_i | v_i h(v_i) dv_i, \quad (18)$$

where  $h(v_i)$  is the density of the standardized random vector  $v_i$ . This integral will generally be intractable, even if  $v_i$  is not a mixture of distributions, which it may be. Recent applications have surmounted this difficulty by maximizing the simulated log likelihood function

$$\ln L_s = \sum_{i=1}^N \ln \left[ \frac{1}{R} \ln P_i | v_{ir} \right], \quad (19)$$

where  $v_{ir}$  is a simulated random draw from the assumed distribution. See Gouriéroux et al. (1994) and Train (2003) for discussion and extensive analysis of maximum simulated likelihood estimation. One of the large virtues of the mixed logit model is that in the simulated likelihood function, one is not limited to the normal distribution; indeed, the components in  $v_i$  may be drawn from different distributions. They are independent, so the draws may be constructed individually. Thus, for example, one might wish to restrict a parameter to be positive or restrict the variation to a pre-specified range.

The mixed logit model also provides a person-specific posterior estimator of the parameter vector. With estimates of the structural parameters,  $\beta$ ,  $\Delta$ ,  $\Gamma$  in hand, let

$$\hat{\beta}_{ir} = \hat{\beta} + \hat{\Delta} z_i + \hat{\Gamma} v_{ir} \quad (20)$$

denote a draw from the individual-specific distribution. Then, the posterior estimate of the individual-specific parameter vector is

$$\hat{\beta}_i = \frac{\frac{1}{R} \sum_{r=1}^R (\hat{P}_i | \mathbf{v}_{ir}) \hat{\beta}_{ir}}{\frac{1}{R} \sum_{r=1}^R (\hat{P}_i | \mathbf{v}_{ir})}. \quad (21)$$

The elasticities for a given choice situation can also be estimated

$$\hat{\sigma}_{km,tj|i} = \frac{\frac{1}{R} \sum_{r=1}^R (\hat{P}_i | \mathbf{v}_{ir}) (\hat{\sigma}_{km,tj|i} | \mathbf{v}_{ir})}{\frac{1}{R} \sum_{r=1}^R (\hat{P}_i | \mathbf{v}_{ir})}. \quad (22)$$

One might then average these over individuals to characterize the sample.

## 4. A comparison of LCM and MLM

### 4.1. Empirical setting

To illustrate the behavioral contrasts of the latent class and mixed logit models, we draw on a study undertaken in New Zealand in 2000 in which a sample of car drivers undertaking a long-distance trip were surveyed with the intent of establishing their preferences for road environments. The drivers were sampled from residents of six cities/regional centers in New Zealand.<sup>1</sup> The main survey was executed as a laptop-based face-to-face interview in which each respondent was asked to complete the survey in the presence of an interviewer.

The centerpiece of the survey was a stated choice experiment. The choice experiment presented four alternatives to a respondent:

- A. The current road the respondent is/has been using;
- B. A hypothetical 2-lane road;
- C. A hypothetical 4-lane road with no median;
- D. A hypothetical 4-lane road with a wide grass median.

There are two choice responses, one including all four alternatives and the other excluding the current road option. All alternatives are described by six attributes except alternative A, which does not have toll cost. Toll cost is set to zero for alternative A since there are currently no toll roads in New Zealand. The attributes in the stated choice experiment are

- 1. Time on the open road which is free flow (in minutes);
- 2. Time on the open road which is slowed by other traffic (in minutes);
- 3. Percentage of total time on open road spent with other vehicles close behind (i.e. tailgating) (%);
- 4. Curviness of the road (a four-level attribute—almost straight, slight, moderate, winding);

<sup>1</sup> Auckland, Hamilton, Palmerston North, Wellington, Christchurch, and Dunedin on both the North and South Islands.

5. Running costs (in dollars);
6. Toll cost (in dollars).

Each sampled respondent evaluated 16 stated choice (SC) profiles, making two choices: the first involving choosing amongst three labelled SC alternatives and the current revealed preference (RP) alternative, and the second choosing amongst the three SC alternatives.<sup>2</sup> A total of 274 effective interviews<sup>3</sup> with car drivers were undertaken producing 4384 car driver cases for model estimation (i.e.  $274 * 16$  treatments). The experimental design is a  $4^6$  profile in 32 runs. That is, there are two versions of 16 runs each. The design was chosen to minimize the number of dominants in the choice sets. Within each version, the order of the runs was randomized to control for order effects. For example, the levels proposed for alternative B should always be different from those of alternatives C and D.

In 32 runs it is straightforward to construct the following main effects plan:  $4^9 2^4$ . No interactions can be estimated without imposing some correlation. To obtain the  $4^6$  design, six columns in four levels were extracted from the nine columns available in the plan. This formed the base and the levels were manipulated to eliminate dominant alternatives in the choice sets. This is achieved, for example, by changing 0,1,2,3 to 2,1,0,3. Given that there are four levels and six attributes, a lot of designs can be produced. It is not difficult to produce a few of them and keep the one with the minimum number of dominant alternatives. In the present case the result of this procedure yielded a design with only one choice set presenting a dominant alternative. The dominant alternative has been used in a 2-lane road. Therefore all respondents who prefer driving on a 4-lane road might not see it as being a dominant alternative, because although all attributes of the 2-lane road are better, they may still be willing to trade them off for a 4-lane road. This produces a design that should conform well with the specifications of the study.<sup>4</sup> One of the two-level variables has been used to create the versions.

The four levels of the six attributes that were chosen are as follows:

- Free flow travel time:  $-20\%$ ,  $-10\%$ ,  $+10\%$ ,  $+20\%$ ;
- Time slowed down:  $-20\%$ ,  $-10\%$ ,  $+10\%$ ,  $+20\%$ ;
- Percent of time with vehicles close behind:  $-50\%$ ,  $-25\%$ ,  $+25\%$ ,  $+50\%$ ;
- Curviness: almost, straight, slight, moderate, winding;
- Running costs:  $-10\%$ ,  $-5\%$ ,  $+5\%$ ,  $+10\%$ ;

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<sup>2</sup> The development of the survey instrument occurred over the period March to October 2000. Many variations of the instrument were developed and evaluated through a series of pre-pilot and pilot tests.

<sup>3</sup> We also interviewed truck drivers but they are excluded from the current empirical illustrations (see Hensher and Sullivan, in press for the truck models).

<sup>4</sup> The SC design is generic. The mean, range and standard deviation across 2-lane, 4-lane no median and 4-lane with median are identical. Although the attribute levels seen across the alternatives on each screen are different the design levels overall are identical. An alternative-specific design would be more complex since one can have different ranges across alts and would really require more choices or loss of explanatory capability on 16 sets from full 64. This generic structure has produced a generic specification for the design attributes that are treated in estimation as having random parameters.

Four Lanes Survey: | : || : |

Games 16

Please assume that road features not shown are identical for all 4 roads.

	Details of Last Trip	2 Lanes	4 Lanes	4 Lanes with wide grass median
Time in free flow (mins)	50	38	62	56
Time slowed down by other traffic (mins)	10	5	8	15
Percentage of total time spent with other vehicles close behind	25%	31%	19%	12%
Curviness	Moderate	Extreme	Almost straight	Moderate
Running costs	\$ 12.00	\$ 10.50	\$ 9.00	\$ 13.50
Toll cost	\$ 0.00	\$ 3.00	\$ 0.50	\$ 0.00

If you take the same trip again, which road would you choose?

☐ Current Road
 ☒ 2 Lanes
 ☐ 4 Lanes no median
 ☐ 4 Lanes with median

If you could only choose between the 3 new roads, which would you choose?

☐ 2 Lanes
 ☐ 4 Lanes no median
 ☐ 4 Lanes with median

Go to the Last Section. Well Done!

Fig. 1. An example of a stated choice screen.

- Toll cost for car and double for truck if trip duration is
  - 1 h or less: 0, 0.5, 1.5, 3,
  - between 1 h and 2 h 30 min: 0, 1.5, 4.5, 9,
  - more than 2.5 h: 0, 2.5, 7.5, 15.

The design attributes together with the choice responses and contextual data provide the information base for model estimation. An example of a stated choice screen is shown in Fig. 1. Further details are given in Hensher and Sullivan (in press). Herein we focus only on models where individuals choose amongst the three SC alternatives.

#### 4.2. Empirical results

A series of choice models were estimated to arrive at the preferred LCM and MLM, summarized in Table 1 in which the travel time components were aggregated into a single measure.<sup>5</sup> We have specified travel time to have alternative-specific parameter estimates on the argument that the marginal utility of time is not independent of the circumstances under which travel occurs. This is analogous to distinguishing travel time on public transport in contrast to the car. The travel time attributes are defined as random parameters in the mixed logit model. We have selected a triangular distribution and imposed the constraint that the parameter estimates across the

<sup>5</sup> Estimators for both models are provided by NLOGIT Version 3.0 (Econometric Software, Inc., 2003).



Table 1  
Estimated discrete choice models (*t* ratios in parentheses)

Attribute	Alternative	MNL	MLM	LCM		
				Class 1	Class 2	Class 3
Travel time <sup>a</sup>	2-lane (2L)	−0.00541 (−5.9)	−0.0233 (−19.9)	−0.00885 (−3.0)	−0.0090 (−6.9)	−0.0051 (−5.5)
Travel time	4-lane w/out median (4NM)	−0.00475 (−5.3)	−0.0188 (−19.7)	−0.01119 (−4.4)	−0.0068 (−6.6)	−0.0063 (−6.2)
Travel time	4-lane with median (4WM)	−0.00375 (−4.4)	−0.0193 (−19.6)	−0.00348 (−1.4)	−0.0062 (−5.6)	−0.00424 (−4.3)
Percent time being tailgated (%)	All	−0.01061 (−6.1)	−0.01418 (−7.1)	−0.00976 (−2.6)	−0.0308 (−15.2)	−0.0039 (−1.6)
Total trip cost (toll plus running cost) <sup>b</sup>	All	−0.1292 (−25.70)	−0.1889 (−27.9)	−0.1565 (−15.9)	−0.0741 (−13.6)	−0.2447 (−43.3)
4NM constant	4NM	0.22029 (2.8)	0.01778 (0.2)	2.0259 (7.9)	0.9637 (8.6)	−0.3533 (−4.9)
4WM constant	4WM	0.72072 (10.3)	0.5982 (5.7)	3.0696 (12.9)	0.6770 (5.3)	−0.2886 (−4.8)
Travel time standard deviation	2L	—	0.0233 (19.9)	—	—	—
Travel time standard deviation	4NM	—	0.0188 (19.7)	—	—	—
Travel time standard deviation	4WM	—	0.0193 (19.6)	—	—	—
Latent class probability		—	—	0.31722 (10.5)	0.2703 (8.4)	0.4124 (12.3)
Log-likelihood <sup>c</sup>		−4095.2	−3594.6		−3532.9	
Pseudo- <i>R</i> <sup>2</sup>		0.0999	0.2531		0.2645	

<sup>a</sup> Travel time is in minutes.

<sup>b</sup> Cost is in dollars.

<sup>c</sup> 4384 observations, 16 observations per person.

distribution cannot change sign. In particular, we set the spread of the triangular distribution to 1.0. Given the definition of the profile of the betas under a triangular distribution as  $\beta_i + \text{scale} \times \beta_i \times t$  where  $t$  is the underlying random variable with the triangular distribution that ranges from  $-1$  to  $+1$ . With the scale  $t$  equal to 1.0, the range of  $\beta_i$  is transformed to the interval 0 to  $2\beta_1$ .

Three latent classes were selected as the best fit from 2, 3, 4 and 5 classes. To facilitate comparisons we restricted the set of attributes and their generic vs alternative-specific specification to a common condition. Comparing different models is always a challenging task given the many domains of contrast. Behavioral outputs such as choice elasticities, willingness to pay valuations (e.g. value of travel time savings) and choice probability profiles offer useful means of comparison in addition to the set of statistical measures of fit. From the results in Table 1, based on the log likelihood values, we can safely reject the MNL model in favor of either the mixed logit or latent class model. (The MNL is a special case of both models.) Since the mixed logit and latent class models are not nested the comparison on a likelihood ratio test is not appropriate.

Table 2

Implied values of travel time savings (willingness to pay) (\$NZ per person hour) ns = not statistically significant (estimates in parentheses for MLM are the standard deviation values)

Alternative	MNL	MLM	LCM		
			Class 1	Class 2	Class 3
2-lane (2L)	2.52	7.36 (3.01)	3.39	7.33	1.26
4-lane w/out median (4NM)	2.20	6.06 (2.41)	4.30	5.53	1.55
4-lane with median (4WM)	1.74	6.11 (2.48)	1.34 (ns)	5.02	1.04

Evaluating the absolute parameter estimates across models is not informative because of scale differences (Louviere et al., 2000).<sup>6</sup> However contrasts of willingness to pay indicators and elasticities is very informative. We present summaries of the implied values of travel time savings (VTTS) in Table 2 and kernel density estimators for the empirical estimates in Fig. 2.<sup>7</sup> The mean estimates of VTTS differ a great deal across the three latent classes for LCM although the variation is surprisingly similar to the profile for MLM for two lanes with mean values higher and lower than the mean for MLM. Class 2 has almost the same mean estimate as MLM for two lanes. In contrast, all class mean VTTS are lower in four lanes (with and without the median) for LCM compared to the mean for mixed logit, although the VTTS distribution in mixed logit for four lanes captures the mean and two standard deviations for all three classes in LCM. Overall the latent class model has revealed three segments of apparent low (class 3), medium (class 1) and high

<sup>6</sup> Note as well that the models are parametrized differently. The MLM is somewhat more parsimonious in its characterization of the underlying distribution. The LCM assumes a fixed parameter vector in each class, with the overall mean being a function of how these are mixed by the class probabilities. These, in turn, may depend on covariates,  $\mathbf{z}_i$  and parameters  $\theta_j$ . The mixed logit model, in contrast, parametrizes the mean of the underlying distributions with a constant and (possibly) person-specific levels,  $\Delta \mathbf{z}_i$  and covariance matrix  $\mathbf{\Gamma}\mathbf{\Gamma}'$ . Thus, either might have the deeper parametrization, depending on the application. An important implication is that it is not useful to compare these models based on parameter estimates. It will be much more meaningful to base any comparison on model predictions such as choice probabilities, elasticities, simulations, and so on. Another important difference between the models concerns correlation across the choice situations. The latent class model assumes that the choices are independent draws from the distribution. The mixed logit model holds the random vector  $\mathbf{v}_i$  the same in all choice situations, which induces the correlation across choice settings. Once again, this is part of the deeper parametrization of the mixed model versus the less detailed specification of the latent class model.

<sup>7</sup> The kernel density function for a single attribute is computed using the following formula:

$$\hat{f}(z_j) = \frac{1}{n} \sum_{i=1}^n \frac{K[(z_j - x_i)/h]}{h}, \quad j = 1, \dots, M$$

computed for a specified set of values  $z_j$ ,  $j = 1, \dots, M$ .  $z_j$  is a partition of the range of the attribute. Each value requires a sum over the full sample of  $n$  values. The kernel function,  $K[\cdot]$  may take any of a number of forms. For example, the logit kernel is  $K[z] = A(z)[1 - A(z)]$ , the normal is  $K[z] = \phi(z)$  (normal density). The other essential part of the computation is the smoothing (bandwidth) parameter  $h$ . Large values of  $h$  stabilize the function, but tend to flatten it and reduce the resolution. Small values of  $h$  produce greater detail, but also cause the estimator to become less stable. The bandwidth used in our application is a typical one,  $h = 0.9Q/n^{0.2}$  where  $Q = \min(\text{standard deviation}, \text{range}/1.5)$ . The number of points must be specified. The set of points  $z_j$  is (for any number of points) defined by formula:  $z_j = z_L + j[(z_U - z_L)/M]$ ,  $j = 1, \dots, M$ ,  $z_L = \min(x) - h$  to  $z_U = \max(x) + h$ . The procedure produces an  $M \times 2$  matrix in which the first column contains  $z_j$  and the second column contains the values of  $\hat{f}(z_j)$  and plot of the second column against the first—this is the estimated density function.

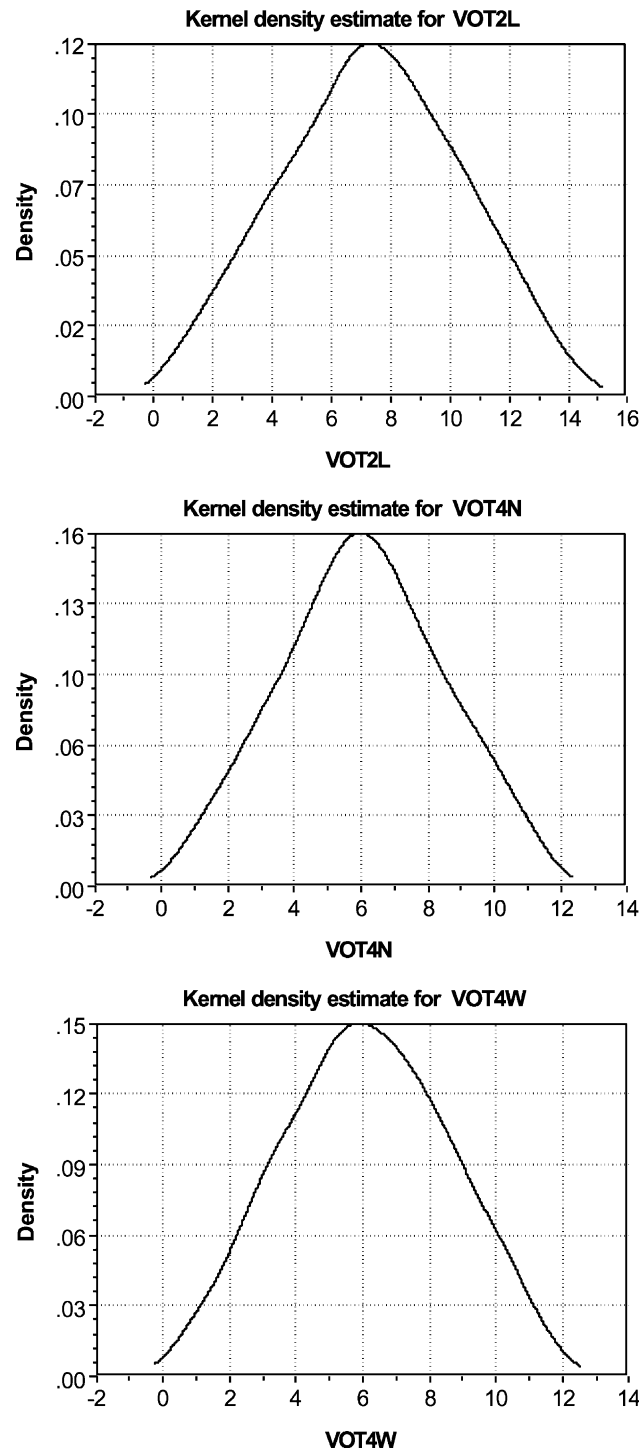


Fig. 2. Value of travel time savings distributions for mixed logit (triangular distribution).

Table 3

Implied direct share elasticities (sample enumerated and probability weighted)

Alternative	MNL	MLM	LCM
<i>(i) Travel time</i>			
2-lane (2L)	−0.483	−1.096	−0.474
4-lane w/out median (4NM)	−0.357	−0.861	−0.471
4-lane with median (4WM)	−0.210	−0.740	−0.187
<i>(ii) Travel cost</i>			
2-lane (2L)	−2.134	−2.009	−2.498
4-lane w/out median (4NM)	−1.818	−1.807	−1.745
4-lane with median (4WM)	−1.396	−1.455	−1.194

(class 2) mean VTTS. This is an interesting result suggesting that the latent influences are to some extent related to an individual's VTTS.

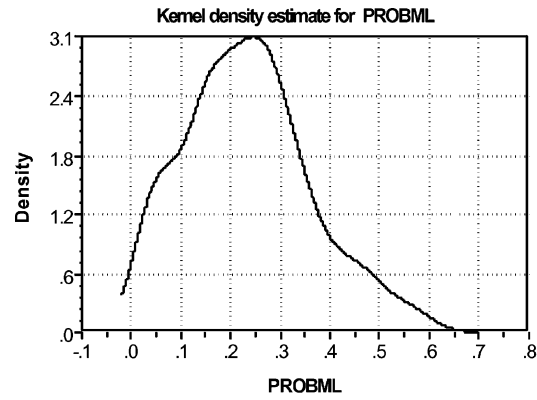
Summaries of the choice elasticities for travel time and travel cost are given in Table 3. The choice (share) elasticities in Table 3 differ substantially between mixed logit and latent class logit, especially for travel time. Indeed the LCM suggests far less behavioral response sensitivity to changes in travel times than does the mixed logit. By comparison, the total cost choice elasticities are relatively similar. In both MLM and LCM for both attributes the elasticities decline as we move from two lanes to four lanes with a median. There is directional consistency.

Another useful behavioral contrast is the profiles of the choice probabilities for each alternative under the MLM and LCM specifications. A kernel density estimator is used to graph the distributions non-parametrically for mixed logit (Fig. 3) and latent class logit (Fig. 4).

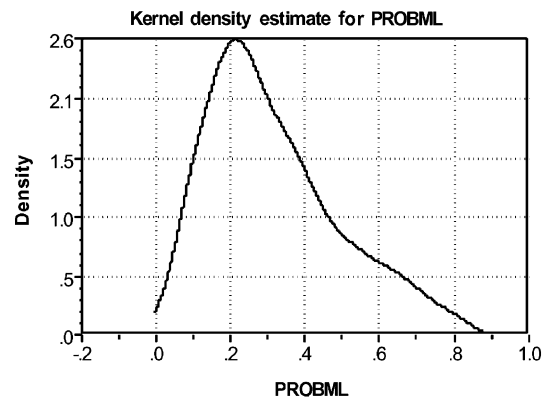
An assessment of Figs. 3 and 4 suggest that the choice probability ranges for the latent class and mixed logits are somewhat similar with the possible exception of 2-lane. However the shapes of the distributions are markedly different with 4-lane without a median displaying the greatest similarity. To illuminate the differences we propose two profiles: (a) a plot of the choice probabilities for mixed logit and latent class logit for each respondent's choice set (Fig. 5), and (b) a graphing of the ratio of the equivalent choice probabilities for each respondent choice set (Fig. 6).

The graphs in Fig. 5 show the relationship between the choice probabilities under MLM and LCM most vividly. The 4-lane choice probabilities map most closely, especially 4-lane without a median which are tight around the 45 degree line. The OLS models accompanying the graphs show that over 77% of the variance associated with the choice probability for LCM for 4-lane without a median explains the choice probability for mixed logit. In contrast only 35.7% of the variance is explained for 2-lane. This may be attributable to the least-favored 2-lane alternative. From this evidence we can conclude that the relationship between the predicted choice probabilities under the mixed logit model (and a constrained triangular distribution on the random parameters) and the latent class model (for three latent classes) is relatively weak at the individual respondent level. At the aggregate choice shares level for the sampled population, the respective shares respectively for 2-lane, 4-lane with and without a median are MLM: 0.233, 0.315, 0.451 and LCM: 0.317, 0.270, 0.412.

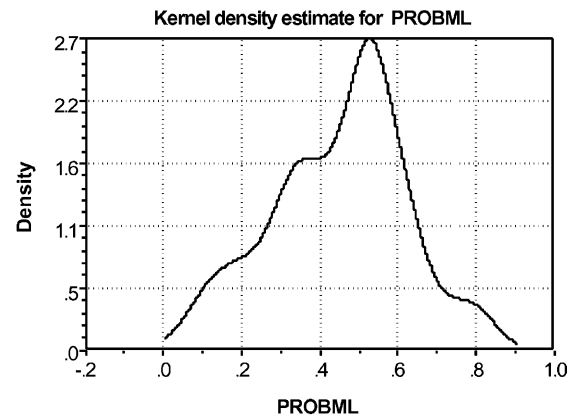
When we take the ratio of the choice probabilities of LCM to MLM (Fig. 6) we find that the distribution around 1.0 is skewed to the left for 2-lane, and slightly to the right for 4-lane with and without a median. The majority of the ratios lie in the 0 to 2 band. Again there is a noticeable



(i) 2 Lane

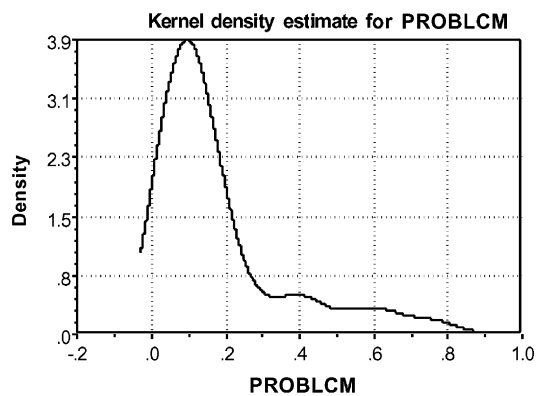


(ii) 4 Lanes without a median

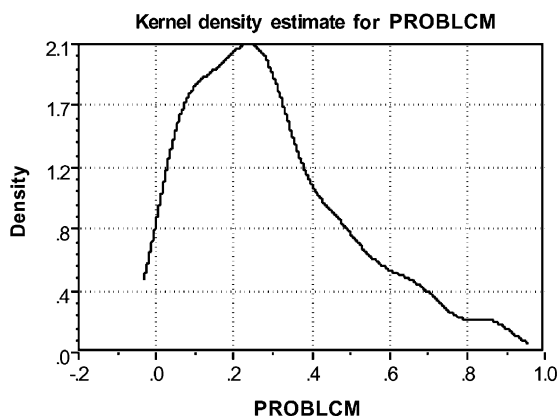


(iii) 4 Lane with Median

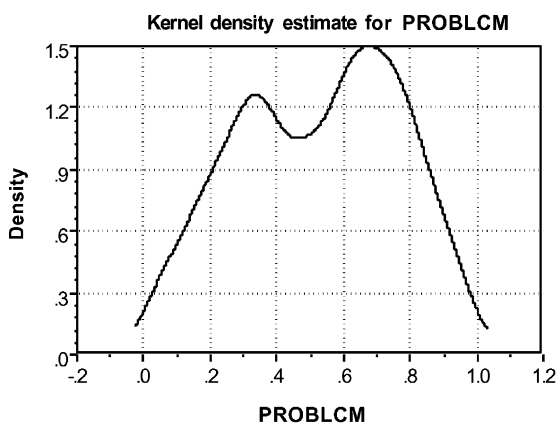
Fig. 3. Kernel densities for choice probabilities for the mixed logit (triangular distribution).



(i) 2 Lane



(ii) 4 Lane without median



(iii) 4 Lane with Median

Fig. 4. Kernel densities for the choice probabilities for the latent class model.

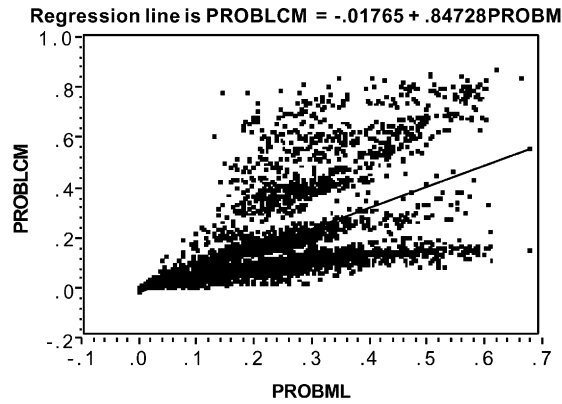
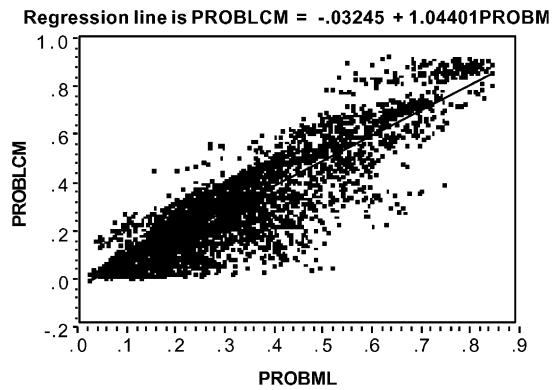
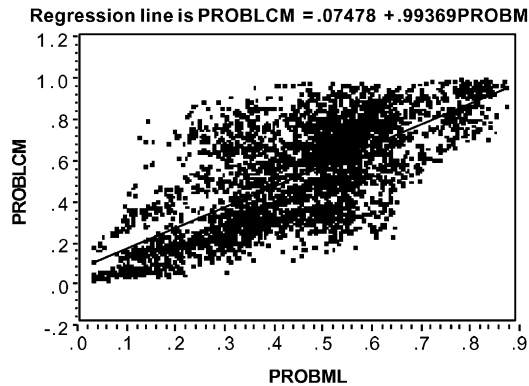
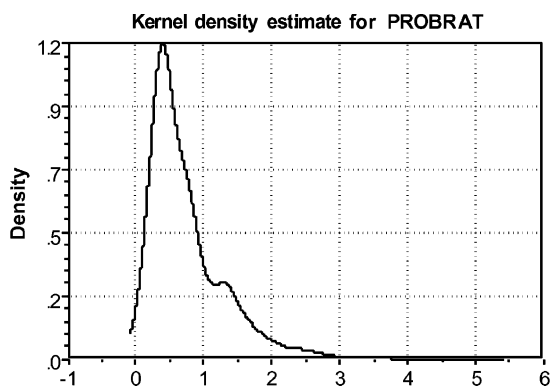
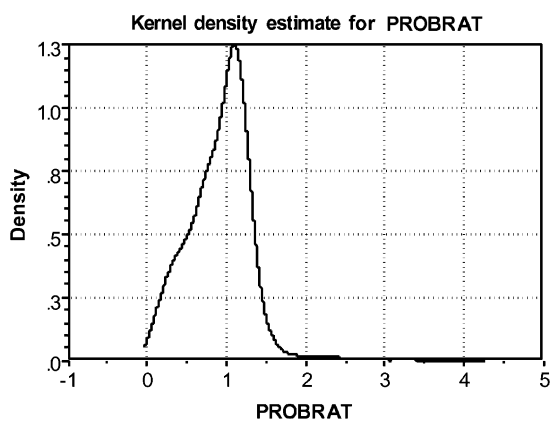
(i) 2 Lane ( $R^2 = 0.357$ )(ii) 4 Lane without median ( $R^2 = 0.775$ )(iii) 4 Lane with Median ( $R^2 = 0.4950$ )

Fig. 5. Comparison of probability profiles of LCM and MLM.

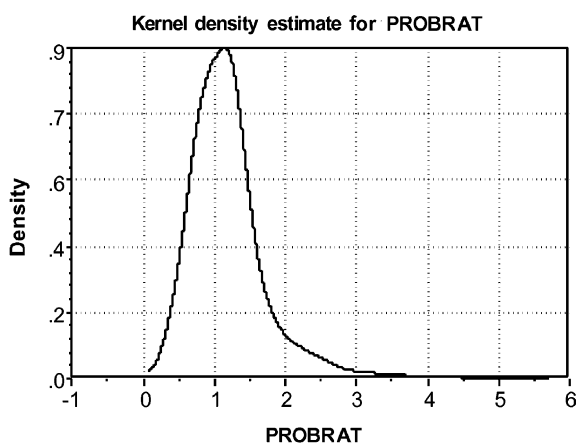
variation around equality of choice probabilities leading us to conclude that each model is representing the choice responses quite differently for the majority of the sample. In the main,



PROBRAT  
(i) 2 Lane



PROBRAT  
(ii) 4 Lane without median



PROBRAT  
(iii) 4 lane with median

Fig. 6. Comparison of probability profiles of LCM and MLM ratios.



Table 4  
Comparison of sensitivity to 50% increase in travel time

Alternative	MNL	MLM	LCM
<i>(i) 2-lane increase in travel time</i>			
2-lane (2L)	−4.639	−9.266	−3.004
4-lane w/out median (4NM)	1.625	3.817	1.349
4-lane with median (4WM)	3.014	5.449	1.654
<i>(ii) 4-lane without median increase in travel time</i>			
2-lane (2L)	1.545	3.949	1.841
4-lane w/out median (4NM)	−4.813	−10.839	−6.254
4-lane with median (4WM)	3.268	6.890	4.413
<i>(iii) 4-lane with median increase in travel time</i>			
2-lane (2L)	2.376	5.967	1.229
4-lane w/out median (4NM)	2.769	7.975	2.819
4-lane with median (4WM)	−5.145	−13.942	−4.048

Note: The 50% increase is applied to each alternative separately. Absolute change in choice share.

the kernel plots of these ratios suggests the broad similarity of the predictions from the two models.

Finally, we compare the change in absolute choice shares in response to a change in the level of attributes across the sample. We have chosen a 50% increase in travel time, assessed for each alternative, one at a time. The results (in Table 4) show a greater change in absolute choice shares after full sample enumeration for mixed logit than latent class logit. As expected, this is consistent with the choice elasticity evidence in Table 3.

## 5. Conclusions

This paper has contrasted a mixed logit model with a latent class logit model. The objective was to seek some understanding of the relative merits of both modeling strategies, each regarded as an advanced interpretation of discrete choice models. Both models offer alternative ways of capturing unobserved heterogeneity and other potential sources of variability in unobserved sources of utility. Like any empirical evidence, our judgments are conditioned on a single data set's performance under alternative behavioral assumptions.

It might be desirable to decide that one approach is unambiguously preferred to the other, but this is not possible. Each has its own merits. The latent class model has the virtue of being a semiparametric specification, which frees the analyst from possibly strong or unwarranted distributional assumptions about individual heterogeneity. The mixed logit model, while fully parametric, is sufficiently flexible that it provides the modeler a tremendous range within which to specify individual, unobserved heterogeneity. To some extent, this flexibility offsets the specificity of the distributional assumptions. We do find that both models allow the analyst to harvest a rich variety of information about behavior from a panel, or repeated measures data set.

We regard the (stated choice) data set as of high quality in terms of it delivering a substantial amount of variability that can be explained by both models. Overall it is a marked statistical improvement over multinomial logit. Which model is superior on all behavioral measures of performance is inconclusive despite stronger statistical support overall for the latent class model (on this occasion). The inconclusiveness is an encouraging result since it motivates further research involving more than one specification of the choice process. Based on the empirical evidence herein, both mixed logit and latent class logit offer attractive specifications. We encourage a greater effort to compare and contrast such advanced models as one approach to searching for rules on stability in explanation and prediction.

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