



## Marketing Science

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To cite this article:

Sha Yang, Yi Zhao, Ravi Dhar, (2010) Modeling the Underreporting Bias in Panel Survey Data. Marketing Science 29(3):525-539.  
<https://doi.org/10.1287/mksc.1090.0536>

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# Modeling the Underreporting Bias in Panel Survey Data

Sha Yang

Leonard N. Stern School of Business, New York University, New York, New York 10012; and  
School of Economics and Management, Southwest Jiaotong University, 610031 Chengdu, China,  
shayang@stern.nyu.edu

Yi Zhao

J. Mack Robinson College of Business, Georgia State University, Atlanta, Georgia 30302,  
mktyizhao@gsu.edu

Ravi Dhar

Yale School of Management, New Haven, Connecticut 06520, ravi.dhar@yale.edu

Panel survey data have been gaining importance in marketing. However, one challenge of estimating econometric models based on panel survey data is how to account for underreporting; that is, respondents do not report behavioral incidences that actually occur. Underreporting is especially likely to occur in a panel survey because the data-recording mechanism is often tedious, complex, and effortful. The probability of underreporting is likely to vary across respondents and also over the duration of the survey period. In this paper, we propose a model to simultaneously study reported behavioral incidences and partially observed actual behavioral incidences. We propose a Bayesian approach for estimating the proposed model. We treat those unobserved actual behavioral incidences as latent variables, and the Gibbs sampler makes it convenient to impute the nonreported consumption incidences along with making inferences on other model parameters. Our proposed method has two advantages. First, it offers a model-based approach to remove the underreporting bias in panel survey data and therefore allows marketing researchers to make accurate inferences about consumers' actual behavior. Second, the method also offers a natural way to study factors that influence respondents' propensity to underreport. Because we treat those underreported behavioral incidences as nonmissing at random, this underreporting propensity varies across respondents and over time. This understanding can help marketing researchers design the right strategy to intervene and incentivize respondents to authentically report and hence improve the quality of survey data. The proposed model and estimation approach are tested on both synthetic data and actual panel survey data on consumer-reported beverage-drinking behavior. Our analysis suggests that underreporting can significantly mask respondents' true behavior.

*Key words:* panel survey data analysis; measurement error; underreporting; Bayesian analysis

*History:* Received: March 4, 2008; accepted: September 2, 2009; processed by Michel Wedel. Published online in *Articles in Advance* December 2, 2009.

## 1. Introduction

Survey is a popular marketing research tool for collecting information on consumer attitudes and behaviors. When it is difficult to directly observe consumer actions, marketers often rely on surveys to have respondents report their behaviors over time and collect longitudinal panel survey data. With the advent of new digital technology, the use of diary data is increasing. For example, advertising research companies repeatedly collect media usage information from the same respondent for every hour in an entire week. Beverage companies recruit participants to record their beverage consumption on any drinking occasion in a given time period.

Panel survey data have two primary benefits compared with cross-sectional survey data. First, panel survey data allow marketers to collect microlevel

information such as when consumption occurs and what type of product is consumed in every consumption occasion. Such microlevel information helps marketers gain more insights on consumer behavior. Second, panel survey data make it convenient to study consumer behavioral dynamics. For example, diary data allow marketers to study how past behaviors affect current behavior, which can be useful in many marketing research contexts (Guadagni and Little 1983, Erdem and Keane 1996).

At the same time, collecting multiday data creates the problem of underreporting if a respondent's ability and willingness to keep accurate recording declines over time (Kitamura and Bovy 1987), making it difficult to estimate econometric models. Underreporting has been documented (Turner 1961, Waksberg and Neter 1965, Lee et al. 2000) and modeled (Bailar 1975,

Bollinger and David 1997) in the literature. Imagine the following scenario where marketing researchers have respondents make a record and answer a few consumption-related questions whenever consumption of a product occurs for a two-week period. In such context especially when the survey involves a frequently consumed product, underreporting is especially likely to occur because the data recording mechanism is tedious, complex, and effortful. Moreover, this underreporting probability is likely to increase in the later stage of the longitudinal survey because respondents may feel less involved in the task. Finally, this underreporting probability is likely to vary across respondents because of the heterogeneity in their ability or willingness to accurately report consumption patterns.

If underreporting occurs, it would be difficult to study respondents' true behavior based on reported panel survey data. For example, if we find women tend to drink soft drinks less often than men, it could be due to the gender difference in consumption propensity, or because women are more likely to underreport than men when participating in the longitudinal survey, or both. What becomes more problematic is when estimating the state-dependence effect in the consumption, i.e., the effect of last period consumption incidence on the current period consumption utility. Because last period consumption incidence is measured with error, the state-dependence effect is likely to be biased if such omission error is not accounted for.

In this paper, we address these aforementioned challenges by proposing a model to simultaneously study reported behavioral incidences and partially observed true behavioral incidences. Given the complexity of the proposed model, we propose a Bayesian estimation approach. The essence of the proposed estimation method is to treat the actual behavioral incidences as latent variables, and the Gibbs sampler makes it convenient to impute these nonreported consumption incidences along with making inferences on other model parameters. The proposed model and estimation approach are tested on both synthetic data and actual panel survey data on consumer reported beverage consumption behavior. Our analysis suggests that underreporting can significantly mask respondents' true behavior.

Our proposed model has two important managerial implications. First, it offers a model-based approach to remove the underreporting bias in panel survey data and therefore allows marketing researchers to make accurate inferences about consumer behavior. Our empirical analysis with both simulated and actual data suggests that it is important to control for the underreporting to avoid biased inferences. Second, our model offers a natural way to study the factors that influence

a respondent's propensity to underreport. Because we treat those underreported behavioral incidences as nonmissing at random (NMAR), this underreporting propensity varies across respondents and over time. This understanding can help marketing researchers design the right strategy to intervene and incentivize respondents to accurately report and therefore improve the quality of panel survey data.

The remainder of this paper is organized as follows. We will next review the relevant literature on data measurement in panel survey data. We then propose a model and a Bayesian estimation approach to study the underreporting behavior. We then apply the proposed model to a panel survey data set collected by a large beverage manufacturer on consumer beverage consumption behavior and discuss the empirical findings. We conclude the paper with a brief summary and potential extensions of our study.

## 2. Literature Review

Studies describing response error with consumer survey data in marketing can be dated back to the 1960s. Sudman (1964) documented the accuracy of consumer panel data and studied the determining factors. Mandell and Lundsten (1978) provided evidence of underreporting of financial data by survey respondents because high-asset households may consistently underestimate their asset holdings. Hawkins and Coney (1981) documented the uninformed response error in survey research and examined factors that influence respondents' tendency to make an uninformed response. There has been abundant evidence in the literature suggesting biases in survey results of behavioral frequency, and marketing researchers have examined factors attributing to these biases and ways to reduce biases with improved questions (Menon 1993, 1997). Lee et al. (2000) investigated how actual behavioral frequency and duration systematically affect the direction of errors in consumer survey responses. They demonstrate that high-frequency groups underreported their behavioral frequencies, whereas low-frequency groups overreported them. Although actual usage data are accessible in those aforementioned studies, they are not readily available in many other cases such as consumption incidence, creating a challenge to determine the magnitude of the response error. Our paper extends this line of literature by proposing a modeling framework to study the actual behavioral incidence and the underreporting mechanism simultaneously.

Our research is methodologically related to some work in statistics on modeling discrete choice or quantity with response error in cross-sectional survey data. For example, Bradlow and Zaslavsky (1999) modeled the "no answer" responses in customer satisfaction survey. Bollinger and David (1997) studied

the omission and commission error in the reported food stamp participation. Several other papers have modeled underreported counted data such as purchase quantity (Schmittlein et al. 1985, Winkelmann 1996, Fader and Hardie 2000). Our study differs and extends this line of work in the following two ways. First, unlike these prior studies that focused on cross-sectional self-reported data, we study panel study data with the state-dependence effect. The impact of last period behavioral incidence on the current period utility, i.e., the state-dependence effect, is an important element to include when modeling panel data. As we show later, estimating state-dependence effect adds additional complexity in the analysis of panel survey data with response error, and it is difficult to estimate such a model with traditional estimation approaches. To the best of our knowledge, we are the first to incorporate state-dependence effect in analyzing longitudinal panel survey data while correcting for the underreporting bias. Second, in our proposed framework, we simultaneously model the factors that drive true behavioral incidence and the underreporting likelihood. Consequently, such a model allows researchers to disentangle the effect of the same covariate on respondents' true behavior and their likelihood of underreporting.

In the statistics literature, researchers have modeled the phenomenon that the likelihood of underreporting is likely to increase over time as the respondent loses interest and incentive in longitudinal panel surveys. The common approach to statistically control for such effect is to model the dependent variable (continuous or discrete) as a function of explanatory covariates and a time trend (see Fuller 1995 for a discussion). This approach has several limitations. First, this approach assumes that there is no underreporting in the first period, which is a strong assumption. Second, the time trend specification does not allow researchers to disentangle the dynamics from the reporting behavior and the dynamics from the actual behavior. For example, the observation that reported consumption frequency decreases over the survey period can be driven by that respondents are underreporting towards the later stage or respondents are indeed drinking less because of the seasonal variation. Third, because the underlying process of underreporting is not modeled in this standard approach, researchers are not able to disentangle the effect of the same covariate on the respondent's true consumption behavior and on the respondent's underreporting tendency. Finally, it will be very difficult, if at all possible, to model the state dependence in true consumption behavior, with this standard approach. This is because lagged reported consumption incidence is measured with error and this measurement error needs to be statistically controlled. The goal of

this paper is to propose a model to address these aforementioned limitations.

Finally, our research is related to marketing studies on response style. Ter Hofstede et al. (1999) modeled the response scale usage in their market segmentation research. Rossi et al. (2001) addressed the issue that respondents vary in their scale usage when answering survey questions and proposed a statistical model with individual scale and location effects to capture scale usage differences. Bradlow et al. (2004) developed a learning-based imputation model to study how respondents infer missing levels of product attributes in conjoint studies with partial conjoint profiles. Gilbride et al. (2005) proposed a modeling approach and empirically showed how brand usage and attribute perception responses are jointly determined by justification, order, and brand halo effects. Baumgartner and Steenkamp (2001) examined five forms of stylistic responding (acquiescence and disacquiescence response styles, extreme response style and response range, midpoint responding, and non-contingent responding) and discussed their biasing effects on scale scores and correlations between scales. de Jong et al. (2008) studied the extreme response style in marketing research using item response theory. Marketing researchers have examined how fatigue can affect respondent's choice behavior in conjoint studies (Otter et al. 2003, Liechty et al. 2005) and attrition biases in dairy panel (Toh and Hu 1996). Researchers have also studied social desirability response style and how to control for social desirability bias in survey research (Ganster et al. 1983, Fisher 1993, Jo et al. 1997, de Jong et al. 2010). Our study complements this line of research by modeling one type of response style, underreporting, in the context of longitudinal panel survey research. In the following section, we lay out the model, describe how to estimate the proposed model using Markov chain Monte Carlo (MCMC) with data augmentation, and test the proposed model and estimation approach with synthetic data.

### 3. Model

Let  $R_{it}$  stand for the reported incidence of a behavior and  $Y_{it}$  stand for the actual incidence of a behavior (such as consumption of a product) by respondent  $i$  at time  $t$  in the survey period. When underreporting happens, some actual behavioral incidences are not reported. The econometrician only observes  $R_{it}$ . When a behavior occurs ( $Y_{it} = 1$ ), we model the respondent's decision on whether or not to report as in a standard binary probit setting; that is,

$$\begin{aligned} R_{it} &= 1 & \text{if } U_{it}^* > 0, \\ R_{it} &= 0 & \text{if } U_{it}^* \leq 0, \end{aligned} \quad \text{given } Y_{it} = 1, \quad (1a)$$

$$R_{it} = 0 \quad \text{given } Y_{it} = 0, \quad (1b)$$

$$U_{it}^* = z_{it}'\alpha_i + \eta_{it}, \quad (1c)$$

$$\alpha_i \sim MVN(\bar{\alpha}, D_\alpha). \quad (1d)$$

In the above equations,  $U_{it}^*$  is the latent utility of reporting,  $z_{it}$  is the vector of covariates,  $\alpha_i$  is the vector of coefficients correspondent to  $z_{it}$ , and  $\eta_{it}$  is the error term. We adopt the random coefficient specification on  $\alpha_i$  to capture the unobserved consumer heterogeneity, where  $\bar{\alpha}$  is the mean-level estimate and  $D_\alpha$  is the variance-covariance matrix.

Similarly, we model the respondent's true behavioral incidence as a binary probit; that is,

$$Y_{it} = 1 \quad \text{if } Y_{it}^* > 0, \quad (2a)$$

$$Y_{it} = 0 \quad \text{if } Y_{it}^* \leq 0, \quad (2b)$$

$$Y_{it}^* = x_{it}'\beta_i + \varepsilon_{it}, \quad (2b)$$

$$\beta_i \sim MVN(\bar{\beta}, D_\beta). \quad (2c)$$

In the above equations,  $Y_{it}^*$  is the latent utility for consumption,  $x_{it}$  is the vector of covariates,  $\beta_i$  is the vector of coefficients correspondent to  $x_{it}$ , and  $\varepsilon_{it}$  is the error term. We adopt the random coefficient specification on  $\beta_i$  to capture the unobserved consumer heterogeneity, where  $\bar{\beta}$  is the mean-level estimate and  $D_\beta$  is the variance-covariance matrix.

To capture any unobserved correlation between the reporting utility and the consumption utility, we allow the two error terms to be correlated and distributed as bivariate normal with mean of zero and correlation of  $\rho$ ; that is,

$$(\eta_{it}, \varepsilon_{it})' \sim MVN\left(\begin{bmatrix} 0 \\ 0 \end{bmatrix}, \begin{bmatrix} 1 & \rho \\ \rho & 1 \end{bmatrix}\right). \quad (3)$$

Note that our model can be viewed as a restricted version of the hidden Markov model. When there is no behavioral occurrence reported ( $R = 0$ ), we model two latent states, one being the state in which consumption indeed occurs ( $Y = 1$ ) and the other being the state in which consumption does not occur ( $Y = 0$ ). We used the probit link to parameterize the switching probabilities between the two states. Hidden Markov models have been widely used in many marketing studies to model unobserved consumer behavioral dynamics (Montgomery et al. 2004, Du and Kamakura 2006, Montoya et al. 2007, Netzer et al. 2008, van der Lans et al. 2010).

We introduce a Bayesian approach to estimate the model using data augmentation. The critical step in this MCMC algorithm is to draw the true behavioral incidence  $Y_{it}$  conditional on data (reported behavioral incidence and covariates) and model parameters.

The above model specification suggests the following probabilities to be associated with each one of the three events:

$$\Pr(R_{it} = 1, Y_{it} = 1) = \Phi_2(z_{it}'\alpha_i, x_{it}'\beta_i, \rho), \quad (4a)$$

$$\Pr(R_{it} = 0, Y_{it} = 1) = \Phi_2(-z_{it}'\alpha, x_{it}'\beta_i, -\rho), \quad (4b)$$

$$\Pr(R_{it} = 0, Y_{it} = 0) = \Phi(-x_{it}'\beta_i), \quad (4c)$$

where  $\Phi_2(a, b, \rho)$  stands for the cumulative density function for a standard bivariate normal distribution with mean as zero and correlation as  $\rho$ . Then conditional on  $R_{it} = 0$ , based on the Bayes theorem, we can derive the conditional distribution of  $Y_{it}$ :

$$\begin{aligned} \Pr(Y_{it} = 1 | R_{it} = 0) \\ = \frac{\Phi_2(-z_{it}'\alpha, x_{it}'\beta_i, -\rho)}{\Phi_2(-z_{it}'\alpha, x_{it}'\beta_i, -\rho) + \Phi(-x_{it}'\beta_i)}, \end{aligned} \quad (5a)$$

$$\begin{aligned} \Pr(Y_{it} = 0 | R_{it} = 0) \\ = \frac{\Phi(-x_{it}'\beta_i)}{\Phi_2(-z_{it}'\alpha, x_{it}'\beta_i, -\rho) + \Phi(-x_{it}'\beta_i)}. \end{aligned} \quad (5b)$$

In many situations, marketing researchers are interested in the state-dependence effect, that is, the effect of last period behavioral incidence on the current period choice utility. There has been a long history of incorporating the state-dependence effect when studying consumer product choices using supermarket scanner panel data (Guadagni and Little 1983, Seetharaman et al. 1999). State dependence has been shown to be an important factor to capture consumer dynamic preferences, leading to important implications to firms' pricing decisions (Che et al. 2007). Incorporating the state-dependence effect is especially important when analyzing longitudinal panel survey data, because a key advantage of panel survey data compared with cross-sectional survey data is that they allow researchers to examine consumer dynamic preferences. To incorporate the state-dependence effect,<sup>1</sup> we need to revise the consumption utility in Equations (2b) and (2c) as follows:

$$Y_{it}^* = x_{it}'\beta_i + \delta_i Y_{i,t-1} + \varepsilon_{it}, \quad (6a)$$

$$\theta_i = [\beta_i', \delta_i]' \sim MVN(\bar{\theta}, D_\theta). \quad (6b)$$

Incorporating the state-dependence effect is standard when there is no measurement error on last-period behavioral incidence. However, when last-period behavioral incidence is measured with error, we need to account for this measurement error. Now, to draw  $Y_{it}$  with the state-dependence effect

<sup>1</sup> Multiperiod state dependence can be incorporated but with extra complication.

incorporated, we need to derive the probability of each of the nine possible combinations of outcomes conditional on  $Y_{i,t-1}$ .

$$\begin{aligned} \Pr(R_{it}=0, Y_{it}=1, R_{i,t+1}=1, Y_{i,t+1}=1) \\ = \Phi_2(-z'_{it}\alpha_i, x'_{it}\beta_i + \delta_i Y_{i,t-1}, -\rho) \\ \cdot \Phi_2(z'_{i,t+1}\alpha_i, x'_{i,t+1}\beta_i + \delta_i, \rho), \end{aligned} \quad (7a)$$

$$\begin{aligned} \Pr(R_{it}=0, Y_{it}=1, R_{i,t+1}=0, Y_{i,t+1}=1) \\ = \Phi_2(-z'_{it}\alpha_i, x'_{it}\beta_i + \delta_i Y_{i,t-1}, -\rho) \\ \cdot \Phi_2(-z'_{i,t+1}\alpha_i, x'_{i,t+1}\beta_i + \delta_i, -\rho), \end{aligned} \quad (7b)$$

$$\begin{aligned} \Pr(R_{it}=0, Y_{it}=1, R_{i,t+1}=0, Y_{i,t+1}=0) \\ = \Phi_2(-z'_{it}\alpha_i, x'_{it}\beta_i + \delta_i Y_{i,t-1}, -\rho) \\ \cdot [1 - \Phi(x'_{i,t+1}\beta_i + \delta_i)], \end{aligned} \quad (7c)$$

$$\begin{aligned} \Pr(R_{it}=0, Y_{it}=0, R_{i,t+1}=1, Y_{i,t+1}=1) \\ = [1 - \Phi(x'_{it}\beta_i + \delta_i Y_{i,t-1})] \\ \cdot \Phi_2(z'_{i,t+1}\alpha_i, x'_{i,t+1}\beta_i, \rho), \end{aligned} \quad (7d)$$

$$\begin{aligned} \Pr(R_{it}=0, Y_{it}=0, R_{i,t+1}=0, Y_{i,t+1}=1) \\ = [1 - \Phi(x'_{it}\beta_i + \delta_i Y_{i,t-1})] \\ \cdot \Phi_2(-z'_{i,t+1}\alpha_i, x'_{i,t+1}\beta_i, -\rho), \end{aligned} \quad (7e)$$

$$\begin{aligned} \Pr(R_{it}=0, Y_{it}=0, R_{i,t+1}=0, Y_{i,t+1}=0) \\ = [1 - \Phi(x'_{it}\beta_i + \delta_i Y_{i,t-1})] \\ \cdot [1 - \Phi(x'_{i,t+1}\beta_i)], \end{aligned} \quad (7f)$$

$$\begin{aligned} \Pr(R_{it}=1, Y_{it}=1, R_{i,t+1}=1, Y_{i,t+1}=1) \\ = \Phi_2(z'_{it}\alpha_i, x'_{it}\beta_i + \delta_i Y_{i,t-1}, \rho) \\ \cdot \Phi_2(z'_{i,t+1}\alpha_i, x'_{i,t+1}\beta_i + \delta_i, \rho), \end{aligned} \quad (7g)$$

$$\begin{aligned} \Pr(R_{it}=1, Y_{it}=1, R_{i,t+1}=0, Y_{i,t+1}=1) \\ = \Phi_2(z'_{it}\alpha_i, x'_{it}\beta_i + \delta_i Y_{i,t-1}, \rho) \\ \cdot \Phi_2(-z'_{i,t+1}\alpha_i, x'_{i,t+1}\beta_i + \delta_i, -\rho), \end{aligned} \quad (7h)$$

$$\begin{aligned} \Pr(R_{it}=1, Y_{it}=1, R_{i,t+1}=0, Y_{i,t+1}=0) \\ = \Phi_2(z'_{it}\alpha_i, x'_{it}\beta_i + \delta_i Y_{i,t-1}, \rho) \\ \cdot [1 - \Phi(x'_{i,t+1}\beta_i + \delta_i)]. \end{aligned} \quad (7i)$$

Note that we only need to generate  $Y_{it}$  when  $R_{it}=0$ , because  $Y_{it}=R_{it}$  when  $R_{it}=1$ . Thus conditional on  $R_{it}=0$ ,  $R_{i,t+1}=1$  ( $R_{i,t+1}=0$ ), and  $Y_{i,t+1}=1$  ( $Y_{i,t+1}=0$ ), we can derive the posterior distribution of  $Y_{it}$ :

$$\begin{aligned} \Pr(Y_{it}=1 | R_{it}=0, R_{i,t+1}=1, Y_{i,t+1}=1) \\ = \{\Phi_2(-z'_{it}\alpha_i, x'_{it}\beta_i + \delta_i Y_{i,t-1}, -\rho) \\ \cdot \Phi_2(z'_{i,t+1}\alpha_i, x'_{i,t+1}\beta_i + \delta_i, \rho)\} \\ \cdot \{\Phi_2(-z'_{it}\alpha_i, x'_{it}\beta_i + \delta_i Y_{i,t-1}, -\rho) \end{aligned}$$

$$\begin{aligned} \cdot \Phi_2(z'_{i,t+1}\alpha_i, x'_{i,t+1}\beta_i + \delta_i, \rho) \\ + [1 - \Phi(x'_{it}\beta_i + \delta_i Y_{i,t-1})] \\ \cdot \Phi_2(z'_{i,t+1}\alpha_i, x'_{i,t+1}\beta_i, \rho)\}^{-1}, \end{aligned} \quad (8a)$$

$$\begin{aligned} \Pr(Y_{it}=0 | R_{it}=0, R_{i,t+1}=1, Y_{i,t+1}=1) \\ = 1 - \Pr(Y_{it}=1 | R_{it}=0, R_{i,t+1}=1, Y_{i,t+1}=1), \end{aligned} \quad (8b)$$

$$\begin{aligned} \Pr(Y_{it}=1 | R_{it}=0, R_{i,t+1}=0, Y_{i,t+1}=1) \\ = \{\Phi_2(-z'_{it}\alpha_i, x'_{it}\beta_i + \delta_i Y_{i,t-1}, -\rho) \\ \cdot \Phi_2(-z'_{i,t+1}\alpha_i, x'_{i,t+1}\beta_i + \delta_i, -\rho)\} \\ \cdot \{\Phi_2(-z'_{it}\alpha_i, x'_{it}\beta_i + \delta_i Y_{i,t-1}, -\rho) \\ \cdot \Phi_2(-z'_{i,t+1}\alpha_i, x'_{i,t+1}\beta_i + \delta_i, -\rho) \\ + [1 - \Phi(x'_{it}\beta_i + \delta_i Y_{i,t-1})] \\ \cdot \Phi_2(-z'_{i,t+1}\alpha_i, x'_{i,t+1}\beta_i, -\rho)\}^{-1}, \end{aligned} \quad (8c)$$

$$\begin{aligned} \Pr(Y_{it}=0 | R_{it}=0, R_{i,t+1}=0, Y_{i,t+1}=1) \\ = 1 - \Pr(Y_{it}=1 | R_{it}=0, R_{i,t+1}=0, Y_{i,t+1}=1), \end{aligned} \quad (8d)$$

$$\begin{aligned} \Pr(Y_{it}=1 | R_{it}=0, R_{i,t+1}=0, Y_{i,t+1}=0) \\ = \{\Phi_2(-z'_{it}\alpha_i, x'_{it}\beta_i + \delta_i Y_{i,t-1}, -\rho) \\ \cdot [1 - \Phi(x'_{i,t+1}\beta_i + \delta_i)]\} \\ \cdot \{\Phi_2(-z'_{it}\alpha_i, x'_{it}\beta_i + \delta_i Y_{i,t-1}, -\rho) \\ \cdot [1 - \Phi(x'_{i,t+1}\beta_i + \delta_i)] \\ + [1 - \Phi(x'_{it}\beta_i + \delta_i Y_{i,t-1})][1 - \Phi(x'_{i,t+1}\beta_i)]\}^{-1}, \end{aligned} \quad (8e)$$

$$\begin{aligned} \Pr(Y_{it}=0 | R_{it}=0, R_{i,t+1}=0, Y_{i,t+1}=0) \\ = 1 - \Pr(Y_{it}=1 | R_{it}=0, R_{i,t+1}=0, Y_{i,t+1}=0). \end{aligned} \quad (8f)$$

With the true behavioral incidence  $Y_{it}$  generated, we can estimate  $\alpha_i$  and  $\theta_i$  as in a bivariate probit model with sample selection. We provide details of the MCMC algorithm in Appendix A. This concludes the model description and estimation.

It is important to note that it is difficult to estimate the proposed model with state-dependence effect using classical estimation methods. For example, in the maximum likelihood estimation approach, we need to write down the likelihood of the observed data from respondent  $i$  according to the specified model; that is,

$$\begin{aligned} L_i = P(R_{i1})P(R_{i2} | R_{i1})P(R_{i3} | R_{i2}, R_{i1}) \cdots \\ P(R_{iT} | R_{i,T-1}, R_{i,T-2}, \dots, R_{i1}). \end{aligned} \quad (9)$$

However, in our research context, the conditional probability  $P(R_{it} | R_{i,t-1}, R_{i,t-2}, \dots, R_{i1})$  is difficult to write down. To see this more clearly, we provide an example below. For the convenience of illustration, we assume zero correlation between the two error terms associated with the reporting utility and consumption utility. If we observe the reported incidence  $R_{it}=1$ ,

then the probability of this observation can be written as follows:

$$\begin{aligned} P(R_{it}=1 | R_{i,t-1}, R_{i,t-2}, \dots, R_{i1}) &= P(Y_{it}=1, U_{it}=1) \\ &= \Phi(Z'_{it}\alpha_i)P(Y_{it}=1) \\ &= \Phi(Z'_{it}\alpha_i)[P(Y_{i,t-1}=1) \cdot P(Y_{it}^* > 0 | Y_{i,t-1}=1) \\ &\quad + P(Y_{i,t-1}=0) \cdot P(Y_{it}^* > 0 | Y_{i,t-1}=0)]. \end{aligned} \quad (10)$$

If a behavioral incidence is reported at time  $t-1$ —that is,  $R_{i,t-1}=1$ —then  $Y_{i,t-1}=1$  with probability 1 by assumption. In this case, it is straightforward to compute  $P(R_{it}=1)$ , where

$$\begin{aligned} P(R_{it}=1) &= P(Y_{it}=1, U_{it}=1) \\ &= \Phi(Z'_{it}\alpha_i)[P(Y_{it}^* > 0 | Y_{i,t-1}=1)]. \end{aligned} \quad (11)$$

However, when a behavioral incidence is not reported at time  $t-1$ —that is,  $R_{i,t-1}=0$ —then we need to calculate  $P(Y_{i,t-1}=1)$  and this probability depends on  $Y_{i,t-2}$ ; that is,

$$\begin{aligned} P(Y_{i,t-1}=1) &= \Phi(Z'_{i,t-1}\alpha_i)[P(Y_{i,t-2}=1) \cdot P(Y_{i,t-1}^* > 0 | Y_{i,t-2}=1) \\ &\quad + P(Y_{i,t-2}=0) \cdot P(Y_{i,t-1}^* > 0 | Y_{i,t-2}=0)]. \end{aligned} \quad (12)$$

Following the same logic,  $P(Y_{i,t-1}=1)$  needs to be computed differently depending on whether  $R_{i,t-2}=0$  or  $R_{i,t-2}=1$ , and this algorithm continues till time  $t-k$ , where  $R_{i,t-k}=1$ . As we see in the aforementioned example, the conditional probability of a reported behavioral incidence at time  $t$  is extremely difficult to compute because the model involves dynamics (i.e., current-period true behavioral incidence is dependent on lag true behavioral incidence), and the lag true behavioral incidence is not fully observed. In summary, what makes the Bayesian estimation approach especially effective and efficient in this context is that our proposed model involves a large number of latent discrete variables.<sup>2</sup>

It is important to note that our proposed model has an identification condition. The standard “exclusion” condition needs to hold here in order to empirically identify the proposed model. This identification requires that the two vectors  $x$  and  $z$  do not contain the exact same covariates. We illustrate why this empirical identification constraint needs to be imposed here using a simpler version of our proposed model by assuming  $\rho=0$ . In that case, the probability of observing a reported behavioral incidence ( $R_{it}=1$ ) is  $\Phi(Z'_{it}\alpha_i)\Phi(x'_{it}\beta_i)$ , and the probability of not observing a reported behavioral incidence ( $R_{it}=0$ ) is

$1 - \Phi(Z'_{it}\alpha_i)\Phi(x'_{it}\beta_i)$ . If  $z_{it}=x_{it}$ , then different combinations of  $\alpha_i$  and  $\beta_i$  can lead to the same likelihood of the data. There are two suggestions on how to impose the exclusion identification constraint. First, we can include a set of covariates in the consumption utility function but include only an intercept in the reporting utility function. This specification usually serves the purpose of testing whether underreporting exists in the data. Second, behavioral theory and previous findings can help us find variables that only predict one but not the other. For example, some psychographic variables such as consumer general attitudes towards survey participation can predict the authentic reporting probability but not necessarily the true consumption incidence.

To test the proposed model, we have conducted simulation analysis. We have simulated data according to the proposed model with prespecified parameter values and then estimated these parameters using the proposed method. Our results suggest that our estimation approach can recover the true parameter values of the proposed model. In addition, our simulations fulfill other two important goals. First, it helps us determine whether the model is statistically identified. Second, it helps us quantify the direction and size of the biases on model parameters caused by the underreporting response style. Overall, our simulation results show that the proposed model is identified, the proposed estimation method works well on recovering true parameter values, and ignoring the underreporting phenomenon leads to biased inferences. For details of the simulation, please refer to Appendix B.

## 4. An Empirical Application

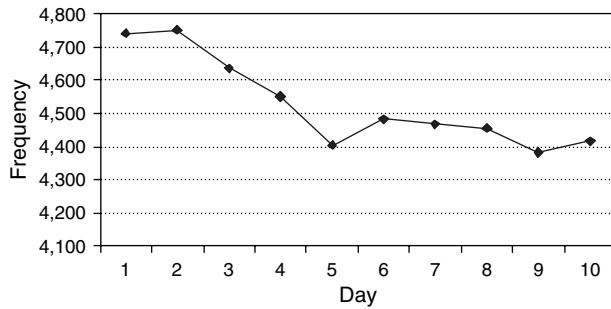
### 4.1. Data and Variable Specification

The data were provided to us by one of the world’s leading marketers of nonalcoholic beverages, who collect these data as part of an extensive and ongoing market research exercise lasting several years. Each respondent was provided with a handheld personal digital assistant. In each weekday over a two-week period, a respondent was asked to make a record and answer a few consumption-related questions whenever he or she consumed a beverage at that moment. Underreporting is likely to occur in such context. Because the data recording mechanism is tedious, complex, and effortful, it is possible that consumption occurs but a respondent does not record the behavioral incidence. On the other hand, overreporting is less likely to occur in such context based on the same intuition.

We randomly sampled 1,000 respondents surveyed in the three months of June, July, and August in 2003 for our empirical analysis. For each respondent, and

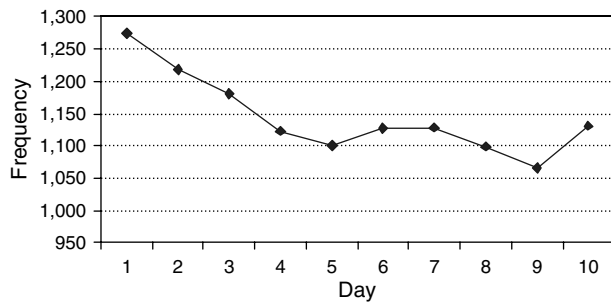
<sup>2</sup> An alternative classical approach to estimate our proposed model is by using the expectation-maximization algorithm.

**Figure 1(a) The Total Beverage Consumption Frequency Over 10 Days from 1,000 Respondents**



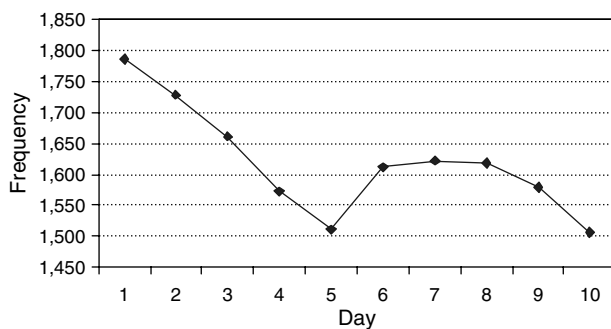
Note. Frequency =  $\alpha + \beta * \text{day} + \varepsilon$ ;  $\beta = -39.95$  ( $T$ -stats =  $-5.40$ ,  $P$ -value =  $0.001$ ).

**Figure 1(b) The Total Soft Drink Consumption Frequency Over 10 Days from 1,000 Respondents**



Note. Frequency =  $\alpha + \beta * \text{day} + \varepsilon$ ;  $\beta = -16.52$  ( $T$ -stats =  $-3.78$ ,  $P$ -value =  $0.005$ ).

**Figure 1(c) The Total Water Consumption Frequency Over 10 Days from 1,000 Respondents**



Note. Frequency =  $\alpha + \beta * \text{day} + \varepsilon$ ;  $\beta = -21.40$  ( $T$ -stats =  $-3.08$ ,  $P$ -value =  $0.015$ ).

for each of the 6 parts of the day (morning, lunch, afternoon, dinner, night, late night) on each of the 10 days, we created a dummy variable indicating whether the person reports any beverage consumption. Figures 1(a), 1(b), and 1(c) plot the total daily consumption frequency from the 1,000 respondents over 10 days of the survey period for overall beverage and two specific types of beverage: water and soft drinks. Regression analysis on the 10 data points suggests a negative and significant time trend for all

three categories. This provides evidence of underreporting because consumer consumption frequency on these product categories is unlikely to be changing significantly during a two-week period.

Next, we discuss the details of the model specification. In the consumption utility, we include eight variables that capture a respondent's demographics, psychographics, and time effect: *AGE*, *GENDER*, *EDUCATION*, *INCOME*, *LOOKGOOD*, *INDULGE*, *HEALTHY*, and *LOG\_WEEK*. The coefficients of these variables are modeled with fixed effects. *AGE* is measured as a respondent's actual age. *GENDER* = 0 for males, and *GENDER* = 1 for females. *EDUCATION* is measured on the following 6-point scale: 1 = grade school or less, 2 = some high school, 3 = high school graduate, 4 = some college or trade school, 5 = college graduate, and 6 = postgraduate work. *INCOME* was measured on the following 7-point scale: 1 = under \$15,000; 2 = \$15,000–\$25,000; 3 = \$25,000–\$35,000; 4 = \$35,000–\$50,000; 5 = \$50,000–\$75,000; 6 = \$75,000–\$100,000; and 7 = \$100,000 or greater. Respondents also reported the level of the motivation for looking good (*LOOKGOOD*), which is measured on a 3-point scale (1 = least, 2 = average, 3 = most), the likelihood of being motivated by indulging oneself (*INDULGE*), and the likelihood of being motivated to be healthy (*HEALTHY*). The likelihood measure ranges from 0 to 1. Because the 1,000 randomly sampled respondents were surveyed for a two-week period at different time points during the three months, we include a *LOG\_WEEK* variable that is measured by the natural log of the week (from 1 to 12 because we have data from 12 consecutive weeks in those three months) of a respondent's reported consumption incidences. This potentially captures the beverage consumption dynamics because of change of weather (becoming hotter in our context). In the consumption utility, we also include seven variables that are modeled with random coefficients or unobserved heterogeneity across respondents: the six day parts (*MORNING*, *LUNCH*, *AFTERNOON*, *DINNER*, *NIGHT*, and *LATE NIGHT*) and lagged actual consumption incidence to capture the state-dependence effect. Note that the "exclusion" identification constraint is imposed by including the 10 day dummies in the reporting utility while including *LOG\_WEEK* in the consumption utility.

We estimated fixed effects for all the covariates included in the utility of reporting conditional on a consumption incidence.<sup>3</sup> These covariates include the seven demographic and psychographic variables as

<sup>3</sup> The fixed-effects specification leads to a better out-sample fit than the random coefficients specification for the reporting equation in our empirical application.



mentioned above, 10 dummies to indicate the consumption in any of the 10 days of the survey period, and the 6 day parts as mentioned above where *LATE NIGHT* is treated as the baseline.

To ensure the convergence of the MCMC chain, we adopted three different techniques to test the convergence. First, we did the time-series inspection on trace plots, which has been often used in the marketing literature. Second, we computed the Geweke (1992) convergence diagnostic, which takes two nonoverlapping parts of the Markov chain and compares the means of both parts, using a difference of means test to assess if the two parts of the chain are from the same distribution (null hypothesis). Last, we used three sets of starting values for the model parameters, and the moments of the posterior distributions remain unchanged across all sets. All three of these tests indicated that model estimation is convergent.

#### 4.2. Estimation Results

Table 1 reports the estimation results on consumption incidence of any beverage from both the proposed model accounting for underreporting and the naïve model not accounting for underreporting. We first discuss results from the proposed model. With regard to consumption utility, we find that the consumption incidence varies from the lowest to the highest over the six day parts in the following order: late night, night, morning, afternoon, dinner, and lunch. The state-dependence parameter at the mean level is significantly negative (−0.209). The variance (heterogeneity) of the state-dependence parameter is 0.368, or its standard deviation is 0.607. This suggests that some respondents have a positive state-dependence coefficient, whereas some respondents have a negative state-dependence coefficient. We also find significant unobserved heterogeneity in consumer beverage consumption incidence over the six day parts. On the effect of demographics, we find that females drink any beverage more often than males. On the effect of psychographics, we find people who are more motivated by *INDULGE* and *HEALTHY* drink beverages more frequently. Finally, the effect of *LOG\_WEEK* is insignificant.

On respondents' reporting behavior conditional on consumption, our analysis reveals some interesting findings. First, on the effects of demographic variables, we find that older respondents are more likely to report and females are less likely to report than males when consumption occurs. Second, on the effects of psychographic variables, we find that people who are more motivated by *INDULGE* are less likely to report when consumption occurs. Third, the estimates on DAY1 through DAY10 show that the reporting tendency is much lower in the last eight days than in the first two days, which may be because of

**Table 1** Estimates on Beverage Consumption Incidence: Posterior Mean (Std. Dev.)

	Proposed model	Naïve model	
Consumption			
AGE	−0.039 (0.026)	0.013 (0.012)	
GENDER	<b>0.129</b> (0.044)	−0.038 (0.028)	
EDUCATION	0.009 (0.019)	0.008 (0.010)	
INCOME	0.015 (0.013)	0.005 (0.007)	
LOOKGOOD	0.021 (0.024)	<b>0.032</b> (0.014)	
INDULGE	<b>0.709</b> (0.071)	<b>0.748</b> (0.045)	
HEALTHY	<b>0.120</b> (0.061)	<b>0.199</b> (0.042)	
LOG_WEEK	0.014 (0.029)	−0.036 (0.021)	
MEAN_MORNING	<b>0.743</b> (0.122)	<b>0.125</b> (0.030)	
MEAN_LUNCH	<b>1.199</b> (0.099)	<b>0.768</b> (0.031)	
MEAN_AFTERNOON	<b>0.886</b> (0.064)	<b>0.517</b> (0.027)	
MEAN_DINNER	<b>1.080</b> (0.061)	<b>0.864</b> (0.031)	
MEAN_NIGHT	<b>0.231</b> (0.055)	0.051 (0.027)	
MEAN_LATE NIGHT	<b>0.194</b> (0.096)	− <b>0.545</b> (0.037)	
MEAN_STATE DEPENDENCE	− <b>0.209</b> (0.035)	− <b>0.126</b> (0.021)	
VAR_MORNING	<b>1.135</b> (0.163)	<b>0.677</b> (0.046)	
VAR_LUNCH	<b>0.983</b> (0.125)	<b>0.624</b> (0.046)	
VAR_AFTERNOON	<b>0.438</b> (0.044)	<b>0.377</b> (0.031)	
VAR_DINNER	<b>0.565</b> (0.054)	<b>0.533</b> (0.041)	
VAR_NIGHT	<b>0.366</b> (0.035)	<b>0.433</b> (0.036)	
VAR_LATE NIGHT	<b>1.278</b> (0.127)	<b>0.959</b> (0.066)	
VAR_STATE DEPENDENCE	<b>0.368</b> (0.034)	<b>0.198</b> (0.015)	
Report			
AGE	<b>0.101</b> (0.036)	NA	NA
GENDER	− <b>0.287</b> (0.053)	NA	NA
EDUCATION	0.007 (0.022)	NA	NA
INCOME	−0.011 (0.016)	NA	NA
LOOKGOOD	0.033 (0.027)	NA	NA
INDULGE	− <b>0.379</b> (0.083)	NA	NA
HEALTHY	0.145 (0.075)	NA	NA
DAY1	<b>1.062</b> (0.139)	NA	NA
DAY2	<b>1.007</b> (0.128)	NA	NA
DAY3	<b>0.781</b> (0.100)	NA	NA
DAY4	<b>0.746</b> (0.102)	NA	NA
DAY5	<b>0.653</b> (0.094)	NA	NA
DAY6	<b>0.707</b> (0.094)	NA	NA
DAY7	<b>0.724</b> (0.094)	NA	NA
DAY8	<b>0.696</b> (0.096)	NA	NA
DAY9	<b>0.611</b> (0.089)	NA	NA
DAY10	<b>0.746</b> (0.095)	NA	NA
MORNING	<b>0.354</b> (0.111)	NA	NA
LUNCH	<b>0.851</b> (0.086)	NA	NA
AFTERNOON	<b>0.692</b> (0.099)	NA	NA
DINNER	<b>1.180</b> (0.107)	NA	NA
NIGHT	<b>1.041</b> (0.206)	NA	NA
LATE NIGHT	Fixed to be 0	NA	NA
Corr			
Corr	− <b>0.838</b> (0.007)	NA	NA

Notes. Significant estimates at 95% are in bolded in Tables 1–4. NA, not applicable.

a decreased interest in expending the effort required. Fourth, the reporting tendency varies over the six day parts from the lowest to the highest in the following order: morning, afternoon, lunch, late night, and night. This order is not consistent with that of the predicted consumption incidence, which suggests that low (high) probability of a consumption incidence

does not necessarily mean low (high) reporting probability. The analysis on respondents' authentic reporting behavior allows marketing researchers to better understand who at what time are more likely to omit reporting of their actual behavioral incidence. Finally, we find that there is a significant negative correlation between the consumption utility and the reporting utility because of the unobserved variables in these two equations.

Next, we estimated a model where we treat the reported consumption incidence as the actual consumption incidence without accounting for the possibility of omission. Estimates from such naïve model are reported in the last two columns of Table 1. We find that failure of accounting for underreporting leads to substantial biases in the coefficient estimates on the day parts such as morning, afternoon, night, and late night. In addition, we find that the state-dependence estimate is attenuated towards zero (40% less negative in our case), consistent with our findings in the simulation.

We have also estimated the same proposed model on soft drink consumption and water consumption, respectively. The estimates from both the proposed model and the naïve model on soft drink consumption are reported in Table 2. Similarly, we find biases in estimates if not accounting for underreporting. For example, our proposed model suggests that *EDUCATION* does not predict soft drink consumption incidence, but according to the naïve model without accounting for the underreporting bias, *EDUCATION* has a significant and positive effect. In the proposed model, *INCOME* is found to have a significant and negative effect on soft drink consumption, but the naïve model found the income effect to be insignificant. Interestingly, we find a significant and positive effect of *LOG\_WEEK* in the proposed model, suggesting that consumers consume soft drinks more frequently as the weather turns hotter. However, the naïve model fails to detect this relationship. Finally, apart from those estimates that suffer from a directional bias, we also find substantial biases on other model parameters. For example, the effect of *AGE* on soft drink consumption utility is  $-0.261$  ( $-0.089$ ) in the proposed (naïve) model. The effect of *INDULGE* on soft drink consumption utility is  $0.700$  ( $0.345$ ) in the proposed (naïve) model. The mean-level estimates on some of the six day parts are substantially biased. The variance (unobserved heterogeneity) estimates of the six day-part random coefficients and the state-dependence effect are underestimated in general.

The estimates from both the proposed model and the naïve model on water consumption are reported in Table 3. As shown in Table 3, the estimates on DAY1 through DAY10 in the report utility from the proposed model are larger than those found in the

**Table 2** Estimates on Soft Drink Consumption Incidence: Posterior Mean (Std. Dev.)

	Proposed model	Naïve model	
Consumption			
AGE	−0.261 (0.039)	−0.089 (0.016)	
GENDER	−0.125 (0.048)	−0.123 (0.031)	
EDUCATION	−0.011 (0.021)	−0.024 (0.012)	
INCOME	−0.042 (0.014)	−0.013 (0.008)	
LOOKGOOD	−0.149 (0.035)	−0.128 (0.017)	
INDULGE	0.700 (0.121)	0.345 (0.060)	
HEALTHY	−0.492 (0.095)	−0.425 (0.057)	
LOG_WEEK	0.090 (0.031)	0.047 (0.025)	
MEAN_MORNING	−1.525 (0.101)	−1.743 (0.055)	
MEAN_LUNCH	−0.325 (0.090)	−0.675 (0.033)	
MEAN_AFTERNOON	−0.786 (0.081)	−1.072 (0.034)	
MEAN_DINNER	−0.648 (0.081)	−0.869 (0.033)	
MEAN_NIGHT	−1.195 (0.116)	−1.557 (0.041)	
MEAN_LATE NIGHT	−1.888 (0.120)	−2.123 (0.065)	
MEAN_STATE DEPENDENCE	−0.228 (0.043)	−0.141 (0.027)	
VAR_MORNING	1.680 (0.187)	1.273 (0.120)	
VAR_LUNCH	1.119 (0.125)	0.781 (0.056)	
VAR_AFTERNOON	0.904 (0.095)	0.700 (0.053)	
VAR_DINNER	0.898 (0.085)	0.721 (0.055)	
VAR_NIGHT	0.874 (0.108)	0.730 (0.074)	
VAR_LATE NIGHT	1.124 (0.150)	1.057 (0.115)	
VAR_STATE DEPENDENCE	0.517 (0.108)	0.138 (0.021)	
Report			
AGE	0.438 (0.102)	NA	NA
GENDER	−0.038 (0.074)	NA	NA
EDUCATION	−0.009 (0.034)	NA	NA
INCOME	0.068 (0.026)	NA	NA
LOOKGOOD	0.018 (0.060)	NA	NA
INDULGE	−0.587 (0.172)	NA	NA
HEALTHY	−0.027 (0.161)	NA	NA
DAY1	1.356 (0.342)	NA	NA
DAY2	1.200 (0.301)	NA	NA
DAY3	1.146 (0.294)	NA	NA
DAY4	1.079 (0.291)	NA	NA
DAY5	1.010 (0.280)	NA	NA
DAY6	1.048 (0.286)	NA	NA
DAY7	1.067 (0.285)	NA	NA
DAY8	1.004 (0.279)	NA	NA
DAY9	0.902 (0.271)	NA	NA
DAY10	1.079 (0.281)	NA	NA
MORNING	−0.037 (0.209)	NA	NA
LUNCH	0.070 (0.179)	NA	NA
AFTERNOON	0.061 (0.191)	NA	NA
DINNER	0.270 (0.181)	NA	NA
NIGHT	−0.224 (0.186)	NA	NA
LATE NIGHT	Fixed to be 0	NA	NA
Corr			
Corr	−0.446 (0.091)	NA	NA

overall beverage consumption. This suggests that respondents have a higher probability of reporting when consuming water than when consuming any beverage, leading to a lesser bias from the naïve model. However, there are still significant biases when underreporting is not accounted for. For example, age is found to have a significant and negative effect in water consumption in the proposed model but found to have an insignificant effect in the naïve model.

**Table 3** Estimates On Water Consumption Incidence: Posterior Mean (Std. Dev.)

	Proposed model	Naïve model
Consumption		
AGE	−0.082 (0.024)	−0.022 (0.015)
GENDER	<b>0.206</b> (0.043)	<b>0.123</b> (0.028)
EDUCATION	0.001 (0.016)	0.002 (0.011)
INCOME	−0.008 (0.010)	−0.011 (0.007)
LOOKGOOD	<b>0.136</b> (0.020)	<b>0.135</b> (0.016)
INDULGE	−0.597 (0.074)	−0.653 (0.057)
HEALTHY	<b>0.809</b> (0.064)	<b>0.803</b> (0.051)
LOG_WEEK	−0.052 (0.024)	−0.085 (0.023)
MEAN_MORNING	−0.810 (0.053)	−0.876 (0.036)
MEAN_LUNCH	−1.181 (0.041)	−1.197 (0.039)
MEAN_AFTERNOON	−0.465 (0.047)	−0.578 (0.030)
MEAN_DINNER	−1.183 (0.047)	−1.213 (0.040)
MEAN_NIGHT	−0.954 (0.049)	−1.025 (0.032)
MEAN_LATE NIGHT	−1.220 (0.064)	−1.289 (0.043)
MEAN_STATE DEPENDENCE	−0.185 (0.025)	−0.139 (0.022)
VAR_MORNING	<b>1.014</b> (0.086)	<b>0.889</b> (0.068)
VAR_LUNCH	<b>0.896</b> (0.076)	<b>0.846</b> (0.071)
VAR_AFTERNOON	<b>0.739</b> (0.060)	<b>0.637</b> (0.045)
VAR_DINNER	<b>0.946</b> (0.075)	<b>0.900</b> (0.074)
VAR_NIGHT	<b>0.651</b> (0.056)	<b>0.591</b> (0.053)
VAR_LATE NIGHT	<b>1.190</b> (0.097)	<b>1.066</b> (0.085)
VAR_STATE DEPENDENCE	<b>0.130</b> (0.021)	<b>0.098</b> (0.015)
Report		
AGE	<b>0.634</b> (0.121)	NA NA
GENDER	−0.846 (0.324)	NA NA
EDUCATION	0.038 (0.063)	NA NA
INCOME	−0.013 (0.052)	NA NA
LOOKGOOD	0.078 (0.086)	NA NA
INDULGE	−0.600 (0.291)	NA NA
HEALTHY	0.310 (0.270)	NA NA
DAY1	<b>3.060</b> (0.821)	NA NA
DAY2	<b>3.029</b> (0.691)	NA NA
DAY3	<b>2.180</b> (0.399)	NA NA
DAY4	<b>2.173</b> (0.405)	NA NA
DAY5	<b>2.006</b> (0.394)	NA NA
DAY6	<b>2.130</b> (0.382)	NA NA
DAY7	<b>2.016</b> (0.374)	NA NA
DAY8	<b>2.113</b> (0.382)	NA NA
DAY9	<b>1.945</b> (0.379)	NA NA
DAY10	<b>1.882</b> (0.365)	NA NA
MORNING	−0.028 (0.280)	NA NA
LUNCH	<b>0.810</b> (0.405)	NA NA
AFTERNOON	−0.122 (0.282)	NA NA
DINNER	0.713 (0.420)	NA NA
NIGHT	0.015 (0.255)	NA NA
LATE NIGHT	Fixed to be 0	NA NA
Corr		
Corr	−0.247 (0.115)	NA NA

**Table 4** Comparison of Estimates from Soft Drink and Water from the Proposed Model

	Soft drink	Water
Consumption		
AGE	−0.261 (0.039)	−0.082 (0.024)
GENDER	−0.125 (0.048)	<b>0.206</b> (0.043)
EDUCATION	−0.011 (0.021)	0.001 (0.016)
INCOME	−0.042 (0.014)	−0.008 (0.010)
LOOKGOOD	−0.149 (0.035)	<b>0.136</b> (0.020)
INDULGE	<b>0.700</b> (0.121)	−0.597 (0.074)
HEALTHY	−0.492 (0.095)	<b>0.809</b> (0.064)
LOG_WEEK	<b>0.090</b> (0.031)	−0.052 (0.024)
MEAN_MORNING	−1.525 (0.101)	−0.810 (0.053)
MEAN_LUNCH	−0.325 (0.090)	−1.181 (0.041)
MEAN_AFTERNOON	−0.786 (0.081)	−0.465 (0.047)
MEAN_DINNER	−0.648 (0.081)	−1.183 (0.047)
MEAN_NIGHT	−1.195 (0.116)	−0.954 (0.049)
MEAN_LATE NIGHT	−1.888 (0.120)	−1.220 (0.064)
MEAN_STATE DEPENDENCE	−0.228 (0.043)	−0.185 (0.025)
VAR_MORNING	<b>1.680</b> (0.187)	<b>1.014</b> (0.086)
VAR_LUNCH	<b>1.119</b> (0.125)	<b>0.896</b> (0.076)
VAR_AFTERNOON	<b>0.904</b> (0.095)	<b>0.739</b> (0.060)
VAR_DINNER	<b>0.898</b> (0.085)	<b>0.946</b> (0.075)
VAR_NIGHT	<b>0.874</b> (0.108)	<b>0.651</b> (0.056)
VAR_LATE NIGHT	<b>1.124</b> (0.150)	<b>1.190</b> (0.097)
VAR_STATE DEPENDENCE	<b>0.517</b> (0.108)	<b>0.130</b> (0.021)
Report		
AGE	<b>0.438</b> (0.102)	<b>0.634</b> (0.121)
GENDER	−0.038 (0.074)	−0.846 (0.324)
EDUCATION	−0.009 (0.034)	0.038 (0.063)
INCOME	<b>0.068</b> (0.026)	−0.013 (0.052)
LOOKGOOD	0.018 (0.060)	0.078 (0.086)
INDULGE	−0.587 (0.172)	−0.600 (0.291)
HEALTHY	−0.027 (0.161)	0.310 (0.270)
DAY1	<b>1.356</b> (0.342)	<b>3.060</b> (0.821)
DAY2	<b>1.200</b> (0.301)	<b>3.029</b> (0.691)
DAY3	<b>1.146</b> (0.294)	<b>2.180</b> (0.399)
DAY4	<b>1.079</b> (0.291)	<b>2.173</b> (0.405)
DAY5	<b>1.010</b> (0.280)	<b>2.006</b> (0.394)
DAY6	<b>1.048</b> (0.286)	<b>2.130</b> (0.382)
DAY7	<b>1.067</b> (0.285)	<b>2.016</b> (0.374)
DAY8	<b>1.004</b> (0.279)	<b>2.113</b> (0.382)
DAY9	<b>0.902</b> (0.271)	<b>1.945</b> (0.379)
DAY10	<b>1.079</b> (0.281)	<b>1.882</b> (0.365)
MORNING	−0.037 (0.209)	−0.028 (0.280)
LUNCH	0.070 (0.179)	<b>0.810</b> (0.405)
AFTERNOON	0.061 (0.191)	−0.122 (0.282)
DINNER	0.270 (0.181)	0.713 (0.420)
NIGHT	−0.224 (0.186)	0.015 (0.255)
LATE NIGHT	Fixed to be 0	Fixed to be 0
Corr		
Corr	−0.446 (0.091)	−0.247 (0.115)

In summary, as empirically demonstrated in the above three examples, it is important to model the underreporting bias when respondents have a tendency to omit reporting but a behavior of interest indeed occurs. Ignoring such underreporting bias can lead to wrong or inaccurate estimates of model parameters. In this regard, our proposed model presents a modeling framework to correct such bias. To gain more managerial insights, we compare the effect of

same variables on consumption and reporting of soft drinks and water in Table 4, estimated from the proposed model.

On the consumption utility, we find the following different and similar effects on the two beverage categories: (1) *Effect of demographics*: Age has a negative effect for both soft drink (−0.199) and water (−0.074). Females are predicted to drink soft drinks (water) less (more) frequently than males. *INCOME* has a signif-

icant and negative effect on soft drink consumption but an insignificant effect on water consumption incidence. (2) *Effect of psychographics*: Specifically, we find that people who are more motivated by *LOOKGOOD* and *HEALTHY* tend to consume soft drinks less frequently and water more frequently, and vice versa for those who are more motivated by *INDULGE*. (3) *Effect of consumption dynamics*: Interestingly, we find a positive (negative) consumption dynamic in soft drink (water), suggesting that consumers tend to drink soft drink (water) more (less) often as the weather turns hotter. The magnitude of state dependence is about the same for these two types of beverages. (4) *Mean-level effect of day parts*: The predicted mean-level consumption probability of soft drink and water varies over the six day parts in different patterns. For example, soft drinks are consumed most in lunchtime, whereas water is consumed most in afternoon. (5) *Unobserved heterogeneity*: In general, we find that the variance of the random coefficients of day parts and state dependence is larger in consumption of soft drinks than in consumption of water.

More importantly, our proposed model presents a modeling framework to allow marketing researchers to better understand who are more likely to underreport and when underreporting is more likely to occur. On the reporting utility, we find the following different and similar effects on the two beverage categories: (1) *Effect of demographics*: For both categories of beverage, we find *AGE* has a positive effect on the utility of reporting with the effect size being significantly larger for water. For water, we find that females are less likely to report than males. For soft drinks, we find that respondents with higher income are more likely to report than respondents with lower income. (2) *Effect of psychographics*: We find that people with stronger consumption motivation of *INDULGE* are more likely to underreport actual consumption incidence of both categories of beverage. (3) *Effect of reporting dynamics*: For both categories, we find the probability of reporting decreases over the 10-day survey period. This pattern is consistent with the plots of consumption frequency observed in the data shown in Figures 1(a)–1(c), suggesting that the observed consumption dynamics from the data are likely driven by the dynamics in the probability of reporting and underreporting. (4) *Effect of day parts*: The probability of reporting is fairly constant across the six day parts for both categories. (5) *Unobserved correlation*: The correlation of the consumption utility and the reporting utility caused by the unobservable is negative for both soft drinks and water.

### 4.3. Model Validation

We next do model validation. Model validation is especially important in our context because respondents' true consumption behavior is not observed.

**Table 5(a) Mean Absolute Deviation of Prediction on the Reported Consumption Probability**

	Beverage		Soft drink		Water	
	In-sample	Out-sample	In-sample	Out-sample	In-sample	Out-sample
Proposed model	0.151	0.166	0.092	0.097	0.111	0.108
Naïve model	0.264	0.266	0.119	0.133	0.146	0.142

**Table 5(b) Predicting the Actual Beverage Consumption Probability—External Validation**

	Morning (%)	Lunch (%)	Afternoon (%)	Dinner (%)	Night (%)
Observed report data	52.87	71.50	64.70	74.11	75.99
Naïve model	53.05	72.70	65.47	75.37	75.49
Proposed model	68.25	79.56	73.54	78.65	77.61
The true probability	73.64	83.99	74.68	86.47	72.57

To gain confidence in our proposed model and the importance of correcting for the underreporting bias, we provide both internal and external validations.

For the internal validation, we conducted two sets of analysis. First, we compared our proposed model with a naïve model that ignores underreporting, in predicting the reported consumption incidence. The naïve model is a nested version or special case of our proposed model by assuming the underreporting probability is zero. Table 5(a) reports the mean absolute deviation (MAD) between the predicted probability of a reported consumption incidence and the actual reported consumption incidence on any beverage, soft drink, and water, respectively. We found that our proposed model predicts better for both in-sample and out-sample on all three categories.

Second, we ran correlation analysis between the predicted consumption incidence and the actual consumption incidence. In our context, the company also collected an overall measure of how frequently each respondent consumes each type of beverage overall ("FREQ"), which is measured on a 5-point scale where "1" means least frequently and "5" means most frequently. This overall measure is collected only once for each respondent and therefore is less prone to a systematic underreporting bias. We use this measure to approximate a respondent's actual consumption frequency. We found that the correlation between FREQ and the predicted consumption incidence based on our proposed model is 30% larger than the correlation between FREQ and the predicted consumption incidence based on the naïve model. Collectively, these results suggest that our proposed model more accurately predicts the reported consumption incidence and the actual consumption frequency.

For the external validation, we collected new data (cross-sectional data) on consumer beverage consumption frequency in various day parts, from a different source based on a representative sample of 200 consumers. In this new survey, we ask each respondent to report his or her likelihood of consuming any beverage on each of the five day parts: morning, lunch, afternoon, dinner, and night. The last row in Table 5(b) reports the average beverage consumption probability on each of the five day parts based on this new sample. We use these average probabilities to approximate the true level of beverage consumption incidence over the five day parts. In the first three rows of Table 5(b), we report the predicted consumption probabilities over the five day parts from three models based on the longitudinal panel data we analyzed earlier: (1) data on reported consumption incidences, (2) naïve model assuming the underreporting probability is zero, and (3) our proposed model. As shown in Table 5(b), our proposed model significantly outperforms the other two models in predicting the true consumption probability on morning, lunch, afternoon, and dinner.

#### 4.4. Managerial Implications

Surveys are extensively used for collecting information about consumers. However, if there is a systematic tendency to underreport, the model estimates will be biased if such underreporting phenomenon is not accounted for. An important managerial implication of our study is to provide a modeling approach to extract unbiased estimates when the survey data might suffer from underreporting. As shown in our analysis, underreporting can significantly mask respondents' true behavior.

**Table 6(a) Predicted Reporting Probabilities on Any Beverage Consumption Across Respondents**

	Morning	Lunch	Afternoon	Dinner	Night	Late night
Respondent A	Age = 4, Gender = 1, Education = 9, Income = 2, LOOKGOOD = 3, INDULGE = 0.82, HEALTHY = 0.82					
	94.51%	98.60%	97.46%	99.36%	98.62%	85.69%
Respondent B	Age = 1, Gender = 2, Education = 4, Income = 9, LOOKGOOD = 1, INDULGE = 0.14, HEALTHY = 0.06					
	59.24%	81.88%	74.46%	89.36%	79.04%	27.81%
Sample average (%)	81.98	93.16	91.03	96.64	93.51	59.20

Another important managerial implication of our study is to help survey researchers identify who at what time are more likely to underreport and incentivize these people to authentically report. In Table 6(a), we report the predicted reporting probabilities of two types of respondents and the sample average predicted reporting probabilities for any beverage consumption in the six-day parts. We find that the reporting probability of Respondent A is higher than the sample average, whereas the reporting probability of Respondent B is lower than the sample average. In Table 6(b), we report the average predicted reporting probabilities of any beverage consumption over the 10 day survey period. As shown, the reporting probabilities in the first two days are significantly higher than those in the remaining eight days.

#### 5. Conclusion

Panel survey data have been gaining importance in marketing for their benefit of allowing marketing researchers to dynamically track changes in consumer behavior. However, one challenge of estimating econometric models based on panel survey data is how to account for the underreporting bias. There is evidence suggesting that respondents may underreport their true behavioral incidence over the duration of the survey period when the data recording mechanism is tedious, complex, and effortful. Such underreporting bias can significantly mask respondents' true behavior and its dynamics. Therefore, it is important to account for such measure error when estimating models based on panel survey data.

In this paper, we developed a model and Bayesian estimation approach for estimating the proposed model to address an important marketing research issue: the underreporting bias in panel survey data. We view this as an important methodological contribution. In the proposed modeling framework, we simultaneously study reported behavioral incidences and partially observed actual behavioral incidences. We treat those unobserved actual behavioral incidences as latent variables, and the Gibbs sampler makes it convenient to impute these nonreported consumption incidences along with making inferences on other model parameters. The proposed Bayesian estimation approach adds additional value when estimating the state dependence effect in panel survey data with underreporting bias. In such context, it is extremely

**Table 6(b) Predicted Reporting Probabilities on Any Beverage Consumption Over Time**

	DAY1	DAY2	DAY3	DAY4	DAY5	DAY6	DAY7	DAY8	DAY9	DAY10
Reported incidence	3,781	3,635	3,495	3,431	3,342	3,425	3,436	3,413	3,327	3,431
Actual incidence	4,088	4,072	4,075	4,075	4,078	4,075	4,074	4,083	4,076	4,076
Report probability	0.925	0.893	0.858	0.842	0.820	0.840	0.843	0.836	0.816	0.842

difficult to estimate the model using classical estimation methods.

The proposed model is then applied to a unique data set on consumer beverage consumption incidence collected by a large manufacturer of nonalcohol beverage producer. The empirical study revealed many important findings and managerial insights that would not have been obtained without modeling the underreporting bias. On one hand, our empirical analysis shows that ignoring the underreporting bias leads to biased estimates on the consumption utility and such biases can be substantial. In this regard, our proposed model is useful to marketing researchers and firms to make accurate inference on consumer behavior with panel survey data. On the other hand, the proposed model allows one to examine factors affecting the underreporting likelihood. Once we know what factors are explaining the underreporting, we can design procedures to intervene and provide incentives to the right respondents at the right time and hence reduce the size of the underreporting measurement error and increase the quality of panel survey data.

Finally, our study can be extended in several ways. First, the incidence model can be extended to a choice model with more than two alternatives. In this study, the incidence model is adopted for ease of demonstration. Second, it will be interesting to incorporate the cross-category state-dependence effect; that is, the last period of consumption incidence on product A influences the current period consumption utility of product B. This requires additional derivation on the posterior distribution of the true consumption incidence for both products. Such an extension may add more complexity to the proposed model but can be valuable to researchers and practitioners who find the cross-category state-dependence effects important. Third, even though our interest in this paper is to model underreporting (behavior occurs but is not recorded), the proposed framework can be extended to modeling overreporting (behavior does not occur but is recorded). In our empirical context, the overreporting is unlikely to occur because of the complicated data-recording mechanism and the product of interest being largely viewed as necessity goods. However, when asked to report usage behavior on some luxury or social status goods, respondents might have an incentive to overreport. Finally, the model can be extended to incorporate and test behavioral theories on sources of measurement error. We hope this paper will generate some further interest in this important marketing research area.

## Appendix A. The MCMC Algorithm

Below, we describe the MCMC algorithm for the proposed model presented in the model section with both state-dependence effect and consumer heterogeneity. Other models presented in the paper can be viewed as special cases.

1. Draw  $Y_{it}$ : If  $R_{it} = 1$ , then  $Y_{it} = 1$  with probability 1.

If  $R_{it} = 0$ , we need to discuss the full condition distribution for  $y_{it}$  across different situations:

(a) When  $R_{it} = 0$ ,  $R_{i,t+1} = 1$  and  $Y_{i,t+1} = 1$ , the probability of  $Y_{it} = 1$  is

$$\begin{aligned} \Pr(Y_{it} = 1 | R_{it} = 0, R_{i,t+1} = 1, Y_{i,t+1} = 1) \\ = \{ \Phi_2(-z'_{it}\alpha_i, x'_{it}\beta_i + \delta_i Y_{i,t-1}, -\rho) \\ \cdot \Phi_2(z'_{i,t+1}\alpha_i, x'_{i,t+1}\beta_i + \delta_i, \rho) \} \\ \cdot \{ \Phi_2(-z'_{it}\alpha_i, x'_{it}\beta_i + \delta_i Y_{i,t-1}, -\rho) \\ \cdot \Phi_2(z'_{i,t+1}\alpha_i, x'_{i,t+1}\beta_i + \delta_i, \rho) \\ + [1 - \Phi(x'_{it}\beta_i + \delta_i Y_{i,t-1})] \Phi_2(z'_{i,t+1}\alpha_i, x'_{i,t+1}\beta_i, \rho) \}^{-1}. \end{aligned}$$

We then draw  $u \sim \text{uniform}(0, 1)$ .

If  $u < \Pr(Y_{it} = 1 | R_{it} = 0, R_{i,t+1} = 1, Y_{i,t+1} = 1)$ , set  $Y_{it} = 1$ ; otherwise set  $Y_{it} = 0$ .

(b) When  $R_{it} = 0$ ,  $R_{i,t+1} = 0$  and  $Y_{i,t+1} = 1$ , the probability of  $Y_{it} = 1$  is

$$\begin{aligned} \Pr(Y_{it} = 1 | R_{it} = 0, R_{i,t+1} = 0, Y_{i,t+1} = 1) \\ = \{ \Phi_2(-z'_{it}\alpha_i, x'_{it}\beta_i + \delta_i Y_{i,t-1}, -\rho) \\ \cdot \Phi_2(-z'_{i,t+1}\alpha_i, x'_{i,t+1}\beta_i + \delta_i, -\rho) \} \\ \cdot \{ \Phi_2(-z'_{it}\alpha_i, x'_{it}\beta_i + \delta_i Y_{i,t-1}, -\rho) \\ \cdot \Phi_2(-z'_{i,t+1}\alpha_i, x'_{i,t+1}\beta_i + \delta_i, -\rho) \\ + [1 - \Phi(x'_{it}\beta_i + \delta_i Y_{i,t-1})] \Phi_2(-z'_{i,t+1}\alpha_i, x'_{i,t+1}\beta_i, -\rho) \}^{-1}. \end{aligned}$$

We then draw  $u \sim \text{uniform}(0, 1)$ .

If  $u < \Pr(Y_{it} = 1 | R_{it} = 0, R_{i,t+1} = 0, Y_{i,t+1} = 1)$ , set  $Y_{it} = 1$ ; otherwise, set  $Y_{it} = 0$ .

(c) When  $R_{it} = 0$ ,  $R_{i,t+1} = 0$  and  $Y_{i,t+1} = 0$ , the probability of  $Y_{it} = 1$  is

$$\begin{aligned} \Pr(Y_{it} = 1 | R_{it} = 0, R_{i,t+1} = 0, Y_{i,t+1} = 0) \\ = \{ \Phi_2(-z'_{it}\alpha_i, x'_{it}\beta_i + \delta_i Y_{i,t-1}, -\rho) [1 - \Phi(x'_{i,t+1}\beta_i + \delta_i)] \} \\ \cdot \{ \Phi_2(-z'_{it}\alpha_i, x'_{it}\beta_i + \delta_i Y_{i,t-1}, -\rho) [1 - \Phi(x'_{i,t+1}\beta_i + \delta_i)] \\ + [1 - \Phi(x'_{it}\beta_i + \delta_i Y_{i,t-1})] [1 - \Phi(x'_{i,t+1}\beta_i)] \}^{-1}. \end{aligned}$$

We then draw  $u \sim \text{uniform}(0, 1)$ .

If  $u < \Pr(Y_{it} = 1 | R_{it} = 0, R_{i,t+1} = 0, Y_{i,t+1} = 0)$ , set  $Y_{it} = 1$ ; otherwise, set  $Y_{it} = 0$ .

2. Draw  $Y_{it}^*$ : If  $Y_{it} = 1$ , then draw  $Y_{it}^*$  truncated by  $Y_{it}^* > 0$  from  $N(x'_{it}\beta_i + Y_{i,t-1}\delta_i + \rho(U_{it}^* - z'_{it}\alpha_i), 1 - \rho^2)$ .

If  $Y_{it} = 0$ , then draw  $Y_{it}^*$  truncated by  $Y_{it}^* < 0$  from  $N(x'_{it}\beta_i + Y_{i,t-1}\delta_i, 1)$ .

3. Draw  $\theta_i$ :

$$\text{Define } \tilde{Y}_{it}^* = \begin{cases} [Y_{it}^* - \rho(U_{it}^* - z'_{it}\alpha_i)] / \sqrt{(1 - \rho^2)}, & \text{if } Y_{it} = 1, \\ Y_{it}^*, & \text{otherwise;} \end{cases}$$

and

$$\tilde{X}_{it} = \begin{cases} (x'_{it}, Y_{i,t-1})' / \sqrt{1 - \rho^2}, & \text{if } Y_{it} = 1, \\ (x'_{it}, Y_{i,t-1})', & \text{otherwise.} \end{cases}$$

Then define

$$Y_i = \begin{pmatrix} \tilde{Y}_{i1}^* \\ \vdots \\ \tilde{Y}_{iT}^* \end{pmatrix} \quad \text{and} \quad X_i = \begin{pmatrix} \tilde{X}_{i1}' \\ \vdots \\ \tilde{X}_{iT}' \end{pmatrix},$$

Based on our assumption  $\theta_i = [\beta_i', \delta_i']' \sim MVN(\bar{\theta}, D_\theta)$ , we can derive the posterior distribution of  $\theta_i$ :

$$\theta_i | Y_i, X_i \sim MVN(b, S),$$

where  $b = S(X_i'Y_i + D_\theta^{-1}\bar{\theta})$  and  $S = (X_i'X_i + D_\theta^{-1})^{-1}$ .

4. Draw  $\bar{\theta}$ : Assume  $\bar{\theta}$  has a diffuse prior distribution  $\bar{\theta} \sim N(\theta_{(0)}, S_{(0)})$ , where  $\theta_{(0)} = 0$  and  $S_{(0)} = 100I$ . Given all  $\theta_i$  and  $D_\theta$ , we can derive the posterior distribution as follows:

$$\bar{\theta} | \theta_i, \quad i = 1, \dots, n \sim N(b, S),$$

where  $b = S(S_{(0)}^{-1}\theta_{(0)} + nD_\theta^{-1}\bar{\theta})$ ,  $S = (S_{(0)}^{-1} + nD_\theta^{-1})^{-1}$  and  $\bar{\theta} = (1/n) \sum_{i=1}^n \theta_i$ .

5. Draw  $D_\theta$ : For convenience of the estimation, we assume the heterogeneity matrix is diagonal; that is,  $D_\theta = \text{Diag}(D_{1,1}, \dots, D_{K,K})$ . Assume the prior of  $D_{k,k}$  follow inverted-gamma distribution as below:

$$D_{k,k} \sim IG(v_0, V_0);$$

then the posterior can be given by

$$D_{k,k} | \theta_i, \quad i = 1, \dots, n \sim IG\left(v_0 + \frac{n}{2}, V_0 + \frac{1}{2} \sum_{i=1}^n (\theta_i - \bar{\theta})^2\right),$$

where  $v_0 = 0.01$  and  $V_0 = 0.01$ .

6. Draw  $U_{it}^*$ : As mentioned in the paper, we consider underreporting a problem only when behavior incidence  $Y_{it} = 1$ . We first define  $\Theta = \{i, t: Y_{it} = 1\}$  and let  $U_{it} = R_{it}$  when  $\{i, t\} \in \Theta$ ; then similar to Step 2, we draw  $U_{it}^*$  based on  $U_{it}$  for  $\{i, t\} \in \Theta$ .

7. Draw  $\alpha_i$  similar to Step 3; draw  $\alpha_i$  based on  $U_{it}^*$  and  $z_{it}$  when  $\{i, t\} \in \Theta$ .

8. Draw  $\bar{\alpha}$  similar to Step 4.

9. Draw  $D_\alpha$  similar to Step 5.

10. Draw  $\rho$ . Similar to Step 6, define  $\Theta = \{i, t: Y_{it} = 1\}$  and  $N_\Theta = \#\{i, t: Y_{it} = 1\}$ . Then set the prior distribution of  $\rho$  as uniform between  $-1$  and  $1$ . We use Metropolis-Hastings algorithm with a random walk chain to generate draws. Let denote  $\rho^{(p)}$  the previous draw, and then the next draw  $\rho^{(n)}$  is given by

$$\rho^{(n)} = \rho^{(p)} + \Delta$$

with the accepting probability as follows:

$$\min \left[ \frac{(1 - \rho^{(n)^2})^{-N_\Theta/2} \exp\left(-\frac{1}{2} \sum_{\{i,t\} \in \Theta} (e_{it}^Y e_{it}^U) \Omega^{(n)} \left(\frac{e_{it}^Y}{e_{it}^U}\right)\right)}{(1 - \rho^{(p)^2})^{-N_\Theta/2} \exp\left(-\frac{1}{2} \sum_{\{i,t\} \in \Theta} (e_{it}^Y e_{it}^U) \Omega^{(p)} \left(\frac{e_{it}^Y}{e_{it}^U}\right)\right)}, 1 \right],$$

where  $e_{it}^Y = Y_{it}^* - (x_{it}'\beta_i + Y_{i,t-1}\delta_i)$ ,  $e_{it}^U = U_{it}^* - z_{it}'\alpha_i$ ,

$$\Omega^{(p)} = \begin{pmatrix} 1 & \rho^{(p)} \\ \rho^{(p)} & 1 \end{pmatrix}^{-1}, \quad \Omega^{(n)} = \begin{pmatrix} 1 & \rho^{(n)} \\ \rho^{(n)} & 1 \end{pmatrix}^{-1},$$

and  $\Delta$  is a draw from the density Normal(0, 0.05). We also constrained candidate draws to lie between  $-1$  and  $1$ .

## Appendix B. Simulation Analysis

Our simulation study is based on synthetic panel data of 1,000 people with 100 observations per person generated from a random coefficients binary probit model with underreporting. We include an intercept and three randomly generated covariates in the utility that drives the true behavioral incidence and in the utility that drives the likelihood of authentic reporting. In addition, we include the lagged true behavioral incidence ( $z_4$ ) to capture the state-dependence effect in predicting the true behavior incidence in the current time period. We simulated two separate data sets. In the first data set, we assumed a negative state-dependence effect ( $\bar{\theta}_4 = -0.5$ ). In the second data set, we assumed a positive state-dependence effect ( $\bar{\theta}_4 = 0.5$ ). Tables B.1 and B.2 report the estimates of  $\bar{\theta}$  (the mean response) and  $D$  (the heterogeneity) under positive state

**Table B.1** Simulation Results with Negative State Dependence

Parameter	True value	Accounting for underreporting	Not accounting for underreporting
		Posterior mean (std. dev.)	Posterior mean (std. dev.)
$\bar{\theta}_1$	-0.5	-0.522 (0.029)	-1.096 (0.012)
$\bar{\theta}_2$	-0.5	-0.515 (0.014)	-0.387 (0.009)
$\bar{\theta}_3$	0.5	0.519 (0.015)	0.403 (0.009)
$\bar{\theta}_4$	-0.5	-0.507 (0.026)	0.374 (0.013)
$D_{1,1}$	0.1	0.123 (0.012)	0.096 (0.006)
$D_{2,2}$	0.1	0.112 (0.008)	0.052 (0.004)
$D_{3,3}$	0.1	0.110 (0.008)	0.054 (0.004)
$D_{4,4}$	0.1	0.081 (0.013)	0.044 (0.007)
$\bar{\alpha}_1$	0.5	0.501 (0.038)	NA NA
$\bar{\alpha}_2$	-0.5	-0.553 (0.027)	NA NA
$\bar{\alpha}_3$	0.5	0.552 (0.043)	NA NA
$D_{1,1}$	0.1	0.118 (0.021)	NA NA
$D_{2,2}$	0.1	0.117 (0.015)	NA NA
$D_{3,3}$	0.1	0.125 (0.016)	NA NA
Corr	-0.5	-0.430 (0.033)	NA NA

**Table B.2** Simulation Results with Positive State Dependence

Parameter	True value	Accounting for underreporting	Not accounting for underreporting
		Posterior mean (std. dev.)	Posterior mean (std. dev.)
$\bar{\theta}_1$	-0.5	-0.502 (0.021)	-1.080 (0.013)
$\bar{\theta}_2$	-0.5	-0.522 (0.015)	-0.366 (0.009)
$\bar{\theta}_3$	0.5	0.528 (0.015)	0.371 (0.009)
$\bar{\theta}_4$	0.5	0.458 (0.022)	0.358 (0.013)
$D_{1,1}$	0.1	0.132 (0.010)	0.095 (0.006)
$D_{2,2}$	0.1	0.110 (0.008)	0.050 (0.003)
$D_{3,3}$	0.1	0.108 (0.008)	0.048 (0.007)
$D_{4,4}$	0.1	0.079 (0.014)	
$\bar{\alpha}_1$	0.5	0.475 (0.029)	NA NA
$\bar{\alpha}_2$	-0.5	-0.501 (0.018)	NA NA
$\bar{\alpha}_3$	0.5	0.518 (0.018)	NA NA
$D_{1,1}$	0.1	0.088 (0.016)	NA NA
$D_{2,2}$	0.1	0.112 (0.011)	NA NA
$D_{3,3}$	0.1	0.088 (0.009)	NA NA
Corr	-0.5	-0.468 (0.026)	NA NA

dependence and under negative state dependence, respectively. As shown, the proposed method works well and we can accurately recover all the model parameters. Ignoring the underreporting behavior leads to biased inferences on model parameters. In particular, the state-dependence estimate is biased up (less negative) when there is positive state dependence. The state-dependence parameter is biased down (less positive) when there is negative state dependence.

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