Data Analysis 2 - Assignment 2

GitHub: <https://github.com/mateschieszler/DA2_2023>

Chosen city: Milan

# Data Cleaning and Filtering:

We dropped null values for rating column as it would lead to a `highly\_rated` = 0. We also dropped null values for stars column as we have enough number of observations with 537 accommodations. For prices, to filter out extreme values we dropped values that were beyond the 550 EUR/night border (95th percentile = 542.95; max = 8617). While for distance we dropped extremes beyond 10kms as we are only looking at Milan, not including smaller cities around it.

# LPM MODEL & PREDICTION

A képen szöveg, Diagram, sor, diagram látható

Automatikusan generált leírásA képen sor, Diagram, diagram, szám látható

Automatikusan generált leírásIn our Linear Probability Model, we examined how high rating is related to number of stars, the hotel’s distance from the city centre, and its price. After examining lowess regressions for price and distance we decided to include the explanatory variables as piecewise linear splines with knots at 2.1 and 4.5 for distance and at 175 euros/night for price.

A képen szöveg, képernyőkép, szám, Betűtípus látható

Automatikusan generált leírásThis model shows us that in Milan, accommodations with similar features with a higher star rating are significantly 20.6pp more likely to be highly rated, when controlling for distance from the city center and price category. The probability of a high rating decreases initially with greater distance from the center (-11.9pp) but then reverses (5.2pp for distances between 2.1 and 4.5 kms and 3.6pp after 4.5 kms), indicating a nuanced location-rating relationship. Additionally, while the likelihood of a high rating initially increases with nightly price (2pp/10eur), it starts to decline beyond a certain point by 1pp/10 EUR. Notably, the top 1% of predicted highly rated accommodations in Milan has an average price of 250 EUR/night, emphasizing a non-linear and statistically significant association between pricing and high ratings. All the coefficients are all statistically significant at 1%.

The predicted values from this model are not bound between 0 and 1, in fact they differ more than  
marginally (min: -0.1997, max: 1.0943)

# Logit & Probit Models

When comparing logit and probit models to lpm the marginal differences change only slightly compared to lpm coefficients while all of them remain significant. Our logit and probit models are almost indistinguishable. However, they produce better predicted values as at tails, probit and logit models are less extreme and bound between 0 and 1. To find which of the three models we should use for4 our conclusion we examine the goodness of fit in the next part.

A képen Diagram, sor, diagram, lejtő látható

Automatikusan generált leírás

# Goodness of fit & Conclusion

The logit and probit models exhibit comparable predictive performance, with the logit model showing a slightly better fit. This improvement is attributed to the logit model's ability to capture more distinct probability model means and medians within the y=0 and y=1 groups. Our Brier-score also suggests that logit (0.181) and probit (0.182), both provide a better fit than our LPM (0.186). The log-loss values of each model show the similar ordering: logit (-0.545) and probit (-0.547) are better than LMP (-0.756).

|  |  |  |  |
| --- | --- | --- | --- |
| mean | pred\_lpm | pred\_logit | pred\_probit |
| highly\_rated |  |  |  |
| 0 | 0.403 | 0.396 | 0.400 |
| 1 | 0.656 | 0.662 | 0.659 |

|  |  |  |  |
| --- | --- | --- | --- |
| median | pred\_lpm | pred\_logit | pred\_probit |
| highly\_rated |  |  |  |
| 0 | 0.413 | 0.366 | 0.381 |
| 1 | 0.677 | 0.710 | 0.701 |

|  |  |  |  |
| --- | --- | --- | --- |
|  | LPM | Logit | Probit |
| R-squared | 0.253 | 0.272 | 0.269 |
| Brier-score | 0.186 | 0.181 | 0.182 |
| Pseudo R-squared | NaN | 0.210 | 0.207 |
| Log-loss | -0.756 | -0.545 | -0.547 |