

Implications of Ignoring the Budget Constraint in Menu-Based Choice

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Abstract

Ignoring the budget constraint is standard practice in discrete choice models, since the income effect drops out due to the quasi-linear specification of the utility function. In the framework of the menu-based choice, choice of more than one item from a menu is possible. Assuming that individuals can afford every possible combination of offers from a menu of size K , including the one comprised of all K offers, might not be reasonable. In this project, we incorporate the budget constraint into the menu choice model, proposed for the analysis of the data based on choices from a menu by Kosyakova et al. (2020), and demonstrate the implications of ignoring it.

Keywords: *budget-constraint; menu-based-choice; hierarchical-Bayes*

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