

SEPARATING PREDICTED RANDOMNESS FROM RESIDUAL BEHAVIOR

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Abstract

We propose a novel measure of goodness of fit for stochastic choice models: that is, the maximal fraction of data that can be reconciled with the model. The procedure is to separate the data into two parts: one generated by the best specification of the model and another representing residual behavior. We claim that the three elements involved in a separation are instrumental to understanding the data. We show how to apply our approach to any stochastic choice model and then study the case of four well-known models, each capturing a different notion of randomness. We illustrate our results with an experimental dataset. (JEL: D00)

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