

Contents

1	Introduction	1
1.1	A Basic Paradigm for Marketing Problems	2
1.2	A Simple Example	3
1.3	Benefits and Costs of the Bayesian Approach	4
1.4	An Overview of Methodological Material and Case Studies	6
1.5	Computing and This Book	6
	Acknowledgements	8
2	Bayesian Essentials	9
2.0	Essential Concepts from Distribution Theory	9
2.1	The Goal of Inference and Bayes' Theorem	13
2.2	Conditioning and the Likelihood Principle	15
2.3	Prediction and Bayes	15
2.4	Summarizing the Posterior	16
2.5	Decision Theory, Risk, and the Sampling Properties of Bayes Estimators	17
2.6	Identification and Bayesian Inference	19
2.7	Conjugacy, Sufficiency, and Exponential Families	20
2.8	Regression and Multivariate Analysis Examples	21
2.9	Integration and Asymptotic Methods	35
2.10	Importance Sampling	37
2.11	Simulation Primer for Bayesian Problems	41
2.12	Simulation from the Posterior of the Multivariate Regression Model	45
3	Markov Chain Monte Carlo Methods	49
3.1	Markov Chain Monte Carlo Methods	50
3.2	A Simple Example: Bivariate Normal Gibbs Sampler	52
3.3	Some Markov Chain Theory	57
3.4	Gibbs Sampler	63
3.5	Gibbs Sampler for the Seemingly Unrelated Regression Model	65

3.6	Conditional Distributions and Directed Graphs	67
3.7	Hierarchical Linear Models	70
3.8	Data Augmentation and a Probit Example	75
3.9	Mixtures of Normals	79
3.10	Metropolis Algorithms	86
3.11	Metropolis Algorithms Illustrated with the Multinomial Logit Model	94
3.12	Hybrid Markov Chain Monte Carlo Methods	97
3.13	Diagnostics	99
4	Unit-Level Models and Discrete Demand	103
4.1	Latent Variable Models	104
4.2	Multinomial Probit Model	106
4.3	Multivariate Probit Model	116
4.4	Demand Theory and Models Involving Discrete Choice	122
5	Hierarchical Models for Heterogeneous Units	129
5.1	Heterogeneity and Priors	130
5.2	Hierarchical Models	132
5.3	Inference for Hierarchical Models	133
5.4	A Hierarchical Multinomial Logit Example	136
5.5	Using Mixtures of Normals	142
5.6	Further Elaborations of the Normal Model of Heterogeneity	154
5.7	Diagnostic Checks of the First-Stage Prior	155
5.8	Findings and Influence on Marketing Practice	156
6	Model Choice and Decision Theory	159
6.1	Model Selection	160
6.2	Bayes Factors in the Conjugate Setting	162
6.3	Asymptotic Methods for Computing Bayes Factors	163
6.4	Computing Bayes Factors Using Importance Sampling	165
6.5	Bayes Factors Using MCMC Draws	166
6.6	Bridge Sampling Methods	169
6.7	Posterior Model Probabilities with Unidentified Parameters	170
6.8	Chib's Method	171
6.9	An Example of Bayes Factor Computation: Diagonal Multinomial Probit Models	173
6.10	Marketing Decisions and Bayesian Decision Theory	177
6.11	An Example of Bayesian Decision Theory: Valuing Household Purchase Information	180
7	Simultaneity	185
7.1	A Bayesian Approach to Instrumental Variables	185

7.2	Structural Models and Endogeneity/Simultaneity	195
7.3	Nonrandom Marketing Mix Variables	200
Case Study 1: A Choice Model for Packaged Goods: Dealing with Discrete Quantities and Quantity Discounts		207
	Background	207
	Model	209
	Data	214
	Results	219
	Discussion	222
	R Implementation	224
Case Study 2: Modeling Interdependent Consumer Preferences		225
	Background	225
	Model	226
	Data	229
	Results	230
	Discussion	235
	R Implementation	235
Case Study 3: Overcoming Scale Usage Heterogeneity		237
	Background	237
	Model	240
	Priors and MCMC Algorithm	244
	Data	246
	Discussion	251
	R Implementation	252
Case Study 4: A Choice Model with Conjunctive Screening Rules		253
	Background	253
	Model	254
	Data	255
	Results	259
	Discussion	264
	R Implementation	266
Case Study 5: Modeling Consumer Demand for Variety		269
	Background	269
	Model	270
	Data	271
	Results	273
	Discussion	273
	R Implementation	277

Appendix A	An Introduction to Hierarchical Bayes Modeling in R	279
A.1	Setting Up the R Environment	279
A.2	The R Language	285
A.3	Hierarchical Bayes Modeling – An Example	303
Appendix B	A Guide to Installation and Use of <i>bayesm</i>	323
B.1	Installing <i>bayesm</i>	323
B.2	Using <i>bayesm</i>	323
B.3	Obtaining Help on <i>bayesm</i>	324
B.4	Tips on Using MCMC Methods	327
B.5	Extending and Adapting Our Code	327
B.6	Updating <i>bayesm</i>	327
References		335
Index		341