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Optimisation-Based Calibration and Model Selection for the Tranus Land Use Module

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Abstract

Instantiating land use and transport integrated models (LUTI modelling) is a complicated task, requiring substantial data collection, parameter estimation and expert analysis. In this work, we present a partial effort towards the automation of the calibration of Tranus, one of the most popular LUTI models. First, we give a detailed mathematical description of the activity module and the usual calibration approach. Secondly, we reformulate the estimation of the endogenous parameters called shadow prices as an optimisation problem. We also propose an optimisation algorithm for the calibration of the substitution submodel, setting a base for future fully integrated calibration. We analyse the case of transportable and non-transportable economic sectors and propose a detailed mathematical scheme for each case. We also discuss how to validate calibration results and propose to use synthetic data generated from real world problems in order to assess convergence properties and accuracy of calibration methods. Results of this methodology are presented for realistic scenarios. Finally, we propose a model selection scheme to reduce the number of shadow prices that need to be calibrated.

1 Introduction

LUTI (land-use and transportation integrated) models aim at representing the complex interactions between land use and transportation offer and demand within a territory. They are mainly used to evaluate different alternative planning scenarios, by simulating their tendential impacts on patterns of land use and travel behaviour. Since the early 60’s LUTI modelling has attracted researchers that aimed to model the complex economical relations in urban areas; a good overview of the evolution and history of LUTI modelling can be found in [9]. Setting up a LUTI model requires the estimation of several types of parameters to reproduce as closely as possible, observations gathered on the studied area (socio-economic data, transport surveys, etc.). The vast majority of available calibration approaches are semi-automatic, estimating one subset of parameters at a time, without a global integrated estimation. Automatic calibration of LUTI model is not a common practice; an exception has been proposed for the Meplan model [1].
We consider Tranus [3], an open source LUTI model that is widely used. Tranus is a classical LUTI model, with two separated modules: the activity module and the transport module. The activity module, is an equilibrium based model based in micro-economic principles that balance the offer and demand of the different economical sectors that interact at each level. Economical sectors are considered in the broad sense, amongst them we have: land, goods, salaries, housing, transportation demand, etc. Also, the price paid for each economical sector has to be balanced with offer and demand, thus there are two equilibria that have to be achieved, offer versus demand and (production) cost versus prices. The transportation module, computes de costs of transportation and assigns the demand to the network. Both modules interact back and forth until a general equilibrium is achieved.

The calibration process is usually done by an expert modeller who iteratively tunes a group of parameters to reproduce as close as possible the observations gathered in the area of study. This process is usually done manually, with little to no automation, adjusting the different economical parameters (for example, the demand curves for different goods in a specific geographical zone). At the same time, Tranus computes internally a set of adjustment coefficients (called shadow prices in Tranus) that correct the utilities and account for the un-modelled effects. These endogenous variables help the model achieve a better response and fit more precisely to the observed data.

In this paper we will address several shortcomings of the classical approach of calibration used in Tranus. In our previous work [2] we proposed a first approach for the reformulation of the heuristic calibration algorithm used in the land use and activity module as an optimisation problem. In this paper we extend this approach by having a closer look at the inner loop that computes the shadow prices and propose an efficient methodology for their estimation by decoupling the calibration in smaller problems. To be able to do this, we have to carefully investigate the system of equations that are computed in the activity module. We also introduce auxiliary variables, which enables the a closed form computation instead of an iterative one. This in turn makes it possible to use sophisticated numerical optimisation methods and opens the door to the simultaneous estimation of different parameter types of the model. The ultimate goal of this approach is to simultaneously calibrate the various parameters of Tranus' inner and outer loops. In this direction, this scheme gives valuable results for usually hard-to-calibrate parameters (so-called penalising factors).

We also present a detailed methodology for the construction of synthetic scenarios based on real calibrated study areas. These synthetic scenarios have a perfect fit without the need of the so-called shadow prices (usually we set their value to zero), enabling us to validate our optimisation algorithms knowing the ground truth values of the shadow prices. A simple example is presented to understand the problematic of synthetic scenario generation and the corresponding equilibrium prices problem.

Finally, we question the rationale of usual calibration approaches for Tranus (and other LUTI models), which consist in estimating parameters for which the model reproduces observations exactly. In Tranus, this is achieved by enriching the underlying macro-economic model with the already mentioned auxiliary variables, the shadow prices. While this allows to correct for unavoidable un-modeled effects, it also bears the risk of overparameterisation/overfitting. We propose a model selection scheme, aiming at a compromise between
model complexity (here, number of shadow prices) and goodness of fit to observations, reducing the risk of overfitting and increasing the likelihood of achieving good predictions with a model.

2 Description of Tranus land use module

Tranus is a land use and transportation integrated model (LUTI), providing a framework for modelling land use and transportations in an integrated manner. It can be used at urban, regional or even national scale. The area of study is divided in spatial zones and economical sectors; the basic concepts of the original input-output model (see [4]) have been generalised and given a spatial dimension. The concept of sectors is more general than in the traditional definition. It may include the classical sectors in which the economy is divided (agriculture, manufacturing, mining, etc.), factors of production (capital, land and labour), population groups, employment, floorspace, land, energy, or any other that is relevant to the spatial system being represented. Tranus combines two main modules: the land use and activity and the transportation modules.

2.1 The land use module

The land use and activity module simulates a spatial economic system by modelling the locations of activities and the interactions between economic sectors for a specific time period. The transportation module, on the other hand, dispatches the travel demand induced by the activity model and assigns it to the transport supply. Both modules are linked together, serving both as input and output for each other. In this way the movements of people or freight are explained as the results of the economic and spatial interaction between activities, the transport system and the real estate market. In turn, the accessibility that results from the transport system influences the location and interaction between activities, also affecting land rent. The two modules use discrete choice logit models [7, 8], linked together in a consistent way. This includes activity-location, land-choice, and multi-modal path choice and trip assignment.

To attain a convergence status, Tranus runs both modules iteratively until an equilibrium is found. The land use and transportation modules need to reach their own respective equilibrium status. First, the land use module needs to achieve equilibrium between offer and demand, and equilibrium between the price paid and the cost of producing each economic sector. This is done at current transportation costs and disutilities. Secondly, the transportation module takes as input the transport demand and equilibrates the transportation network to satisfy the given demand. Both modules are ran iteratively until a general equilibrium status is found. This is achieved when neither land use nor transportation, evolve anymore, as illustrated in Figure 1.

In the activity model, there are two general types of economic sectors; transportable and non-transportable sectors. The main difference between these two types of sectors, is that transportable sectors can be consumed in a different place from where they were produced. As an example, the demand for coal from a metal industry can be satisfied by a mining industry located in another region. On the other hand, a typical non-transportable sector
is floorspace: land is consumed where it is “produced”.

Transportable sectors generate flux, that induces transport demand, which ultimately influence transportation costs. Non-transportable sectors, on the other hand, neither require transportation nor generate fluxes. Usually, three types of economic sectors are classified: land or floorspace, households and businesses. Land is usually composed of two or three types of residential floorspace (e.g. detached houses, apartments, mobile homes), and commercial floorspace of offices and stores. Households are usually classified by socio-economic level, based on income or the household composition. Business sectors comprise industries (whose output is mainly destined for exportation), services (schools, universities, recreational) and commerce. The standard approach for the consumption chain is as follows: Industry has a demand for labour (households) and service businesses. Households also consume services, and services also require labour, thus “consume households”. Finally, all businesses and households consume land. For instance, households will locate in residential zones, and the feedback of household and business “consumption” will induce home-to-work trips (see [6]). This process results in economic exchanges, sometimes inducing flux (transportable sectors) and sometimes in-place consumption (land). The offer and demand is equilibrated and a set of equilibrium prices for each economic sector is attained.

The land use module’s objective is to find an equilibrium between the production and demand of all economic sectors and zones of the modelled region. To attain the equilibrium, various parameters and functions are used to represent the behaviour of the different economic agents. Among these parameters are demand elasticities, attractiveness of geographical zones, technical coefficients, etc. In the following, we introduce the parts of the terminology, parameters and equations used in Tranus that are relevant to this paper. See [3] for a complete description.
• **Productions:** $X^n_i$ expresses how many “items” of an economic sector $n$ are present/produced in a zone $i$.

• **Demands:** $D^{mn}_i$ expresses how many items of a sector $n$ are demanded by the part of sector $m$ located in zone $i$.

• **Prices:** $p^n_i$ defines the price of (one item of) sector $n$ located in zone $i$.

It is important to realise that “price” in the case of land, is the actual rent, whereas the price of a household is derived from the salary.

Productions, demands and prices form part of a dynamic system of equations. These equations depend on one another, and are linked by a list of equations that need to be computed one after another. This is detailed in [3]. A graphical representation of this feedback is represented in Figure 2. For instance, demand induces production and vice-versa. The iteration scheme is as follows: prices of a current iteration translate into intermediate variables (that will not be detailed here) which enables the computation of demand and consumption costs (noted as $c$ in Figure 2). This is done based on the current transportation costs and disutilities. Once demand and costs are known, the current production is computed and fed back to compute a new set of prices, for a next iteration. The process is bottom-up, starting with land use prices and exogenous production and demand up to the production and prices of transportable sectors. All the above computations are repeated until convergence is attained in productions $X$ and prices $p$ at the same time (convergence in these two sets of variables implies convergence in all others).

We are only going to deal with a subset of model equations relevant to this paper. Demand is computed for all combinations of zone $i$, demanding (consuming) sector $m$ and demanded sector $n$:

$$D^{mn}_i = (X^{*m}_i + X^m_i) a^{mn}_i S^{mn}_i$$  \hspace{1cm} (2.1)

$$D^n_i = D^{*n}_i + \sum_m D^{mn}_i$$  \hspace{1cm} (2.2)

where $X^{*m}_i$ is the given exogenous production (for exports), $X^m_i$ the induced endogenous production obtained in the previous iteration (or initial values), and $D^{mn}_i$ exogenous demand. $D^n_i$ in (2.2) then gives the total demand for sector $n$ in zone $i$. $a^{mn}_i$ is a technical demand coefficient and $S^{mn}_i$ is the substitution proportion of sector $n$ when consumed by sector $m$ on zone $i$ (explained later in more detail).
In parallel to demand, one computes the utility of all pairs of production and consumption zones, \( j \) and \( i \):

\[
U_{ij}^n = \lambda^n (p^n_j + h^n_j) + t^n_{ij} .
\]  

(2.3)

Here, \( \lambda^n \) is the marginal utility of income for sector \( n \) and \( t^n_{ij} \) represents transport disutility. Since utilities and disutilities are difficult to model mathematically (they include subjective factors such as the value of time spent in transportation), Tranus incorporates adjustment parameters \( h^n_j \), so-called shadow prices, amongst the model parameters to be estimated.

From utility, we compute the probability that the production of sector \( n \) demanded in zone \( i \), is located in zone \( j \). Every combination of \( n, i \) and \( j \) is computed:

\[
Pr_{ij}^n = \frac{A^n_j \exp (-\beta^n U_{ij}^n)}{\sum_h A^n_h \exp (-\beta^n U_{ih}^n)} .
\]  

(2.4)

Here, \( h \) ranges over all zones, \( A^n_j \) represents attractiveness of zone \( j \) for sector \( n \) and \( \beta^n \) is the dispersion parameter for the multinomial logit model expressed by the above equation.

From these probabilities, new productions are then computed for every combination of sector \( n \), production zone \( j \) and consumption zone \( i \):

\[
X_{ij}^n = D^n_i Pr_{ij}^n .
\]  

(2.5)

Total production of sector \( n \) in zone \( j \), is then:

\[
X_j^n = \sum_i X_{ij}^n
\]  

(2.6)

\[
= \sum_i D^n_i Pr_{ij}^n .
\]  

(2.7)

Given the computed demand and production, consumption costs are computed as

\[
\tilde{c}_i^n = \frac{\sum_j X_{ij}^n (p^n_j + tm^n_{ij})}{D^n_i}
\]  

(2.8)

where \( tm^n_{ij} \) is the monetary cost of transporting one item of sector \( n \) from zone \( j \) to zone \( i \).

These finally determine the new prices:

\[
p_i^m = VA_i^m + \sum_n a_i^{mn} S_i^{mn} \tilde{c}_i^n
\]  

(2.9)

where \( VA_i^m \) is value added by the production of an item of sector \( m \) in zone \( i \), to the sum of values of the input items.

### 2.2 Calibration

The calibration process consists in adjusting the model parameters to be able to reproduce a base year’s data in the study area. Obtaining a good calibration is a long process, that
is usually performed by experts and can take months. A mix of tools are used to estimate the various parameters of the model. Econometrical, ad-hoc procedures and interactive trial-and-error can be counted among the tools used by experts to obtain a good fitting model.

For the calibration phase, parameters are separated in three sets:

i. Parameters that are computed externally using the appropriate data and econometrical techniques.

ii. The adjustment parameters $h^n_j$ of the utilities (2.3), known as shadow prices.

iii. The remaining parameters (for example the penalisation factors and logit dispersions parameters).

After computing the external parameters (set i), and giving initial values to set iii, the model iterates until convergence. The iteration process is constructed in such a way, that the shadow prices will be adjusted to force the productions to reproduce the observed productions $X_0$ in the study area. These variables will “try” to compensate for the other parameters to have a perfect fit; they act as correction terms to compensate for parts of the utility that are not represented by the model. One wants to make the values of the shadow prices as small as possible. This process of parameter calibration is done repeatedly until the expert modeller is satisfied with the parameters and the values of the shadow prices.

The computation of the shadow prices is automatically done as follows at the end of each iteration (cf. figure 2 and the above equations):

$$h^n_{i,t+1} = (h^n_{i,t} + p^n_{i,t}) \frac{X^n_{i,t}}{X^n_{0,i}} - p^n_{i,t+1}. \quad (2.10)$$

The shadow prices for the next iteration $t + 1$ increase proportionally to the excess of computed, as compared to observed, productions.

### 3 Proposed Calibration Approaches

Our main motivations are to replace the sequential calibration process outlined above by a process that rigorously estimates as many parameters as possible, taking into account all available constraints and assumptions in a systematic manner, to automise as much as possible the calibration process, and to make it more reproducible. We believe that a natural way of achieving these goals is to explicitly formulate the calibration process in terms of a cost function (or possibly, as a multi-criteria decision problem) that is to be minimised or maximised, with respect to a set of constraints, when given. This is for example not directly the case in the existing approach, where the estimation of shadow prices and other parameters is done without a definition of a clearly defined cost function. Formulating calibration via explicit cost functions enables to use the rich variety of optimisation algorithms existing in the literature and in numerical libraries.
A first step in this direction concerns the estimation of shadow prices, a second step deals with the automatic estimation of both shadow prices and other parameters; these two steps are described in the following.

3.1 Reformulating as an optimisation problem

It is important to notice that a calibration of the land use module involves the estimation of all the parameters of the model to make productions as close as possible to the base year data. To reformulate the calibration as an optimisation problem, we must compute the shadow prices that make the productions as similar as possible to the observed productions. This can be achieved by the following optimisation problem:

$$\min_h \|X(h) - X_0\|^2 .$$

(3.1)

Here, $h$ is a vector containing all shadow prices, $X_0$ the vector of observed productions, and $X(h)$ the vector of productions computed by the model, after convergence of the iterative process shown in figure 2. The dependency of these on the shadow prices is visible from equations (2.3) to (2.7). Each evaluation of the productions $X(h)$ involves the convergence of the dynamic system exposed in Figure 2. Each evaluation of the cost function involves the convergence of the dynamic system in productions as well as prices. The dual convergence can be avoided by taking the prices as input variables. Moreover, one can compute directly productions that are in equilibrium for a given set of shadow prices and prices. To do so, we observe that the computation of demand and production involves a set of linear equations (2.1), (2.2), (2.5), and (2.7). If we re-organise these equations, knowing that only productions are needed in our cost function, we may only need to compute these. To do so, we substitute $D^*_{ni}$ in equation (2.5) using equations (2.1) and (2.2), giving:

$$X_{ij}^n = \left\{ D_{i}^* + \sum_m (X_{*m} + X_{i}^m) a_{im} S_{im} \right\} P_{rij}^n .$$

(3.2)

Upon substituting this into (2.7), we obtain the following linear system in $X_{nj}$:

$$X_{nj}^n = \sum_i \left\{ D_{i}^* + \sum_m X_{*m} a_{im} S_{im} \right\} P_{rij}^n + \sum_i \sum_m a_{im} S_{im} P_{rij} X_{ij}^m .$$

(3.3)

By construction, the solution of this linear system represents an equilibrium of production and demand.

Nevertheless, computing the gradient of cost function (3.1) is still difficult. Each evaluation of the productions involves solving a linear system of the type (3.3). Estimating the gradient numerically via finite differences, is possible but rather costly. Moreover, even if productions computed this way are in equilibrium, the prices $p$ still need to iterate until convergence is obtained.

Another observation can be made: we already have a base year production data set. For a successful calibration, we want to have the computed productions equal to the base year productions. Hence, we can simply impose this condition by replacing productions in the
right hand side of (3.3), with the observed base year productions. This approach enables us to compute the productions directly, without the need to solve a linear system. To address the second problem (equilibrium of prices), we add the prices explicitly to the set of parameters to be optimised. We use the current values of prices, and compare them against the prices computed by the model in the next iteration, cf. (2.9). The difference between the current prices and the ones computed by the model trough equations (2.3) to (2.8), is added to (3.1), in order to form a new cost function:

\[
\min_{h,p} \| X(h, p, X_0) - X_0 \|^2 + \| \hat{p}(h, p, X_0) - p \|^2 .
\]  

(3.4)

Here, \( \hat{p} \) is the vector of prices computed by the model using (2.9) and the notation \( X(h, p, X_0) \) shows that modelled productions are computed as explained above by substituting observed productions \( X_0 \) into the right-hand side of (3.3).

The above cost function has a closed-form that permits us to compute the derivatives directly. No more iterations or waiting for convergence is required in this approach. The cost function (3.4) is of (non-linear) least squares type, meaning that any least squares optimisation approach can be used; in our work we apply the Levenberg-Marquardt method [5].

Let us also note that other choices than the \( L_2 \) norm would of course be possible to define the cost function of (3.4). We may also weight the two terms differently, in order to favour equilibrium in production over that in prices or vice-versa in cases where a global equilibrium cannot be reached.

### 3.2 Land use sectors

Land is a very particular economical sector, it must be consumed where it is produced. Moreover, land does not consume other economical sectors and the amount of available land is fixed. For the calibration purpose, the prices for the land use sectors are known, this means the \( p_i^n \) variables for the calibration year are considered as input and do not need to be computed. This translates into a simplified set of equations for the computation of production of land. We have to detail two extra equations to understand how this enters our optimisation scheme. First, as land is non-transportable, the location probability (2.4) vanishes, so equation (3.3) can be re-written as:

\[
X_i^n = D_i^{*n} + \sum_m (X_{0i}^m + X_{0i}^m) a_i^{mn} S_i^{mn} .
\]  

(3.5)

We now detail the two variables \( a_i^{mn} \) (technical demand coefficients) and \( S_i^{mn} \) (substitution probabilities):

\[
a_i^{mn} = min^{mn} + gap^{mn} \exp(-\delta^{mn}(p_i^n + h_i^n)) .
\]  

(3.6)

Where \( min^{mn}, gap^{mn} \) and \( \delta^{mn} \) are parameters of the demand function estimated externally using data from the rents. The substitution probability \( S_i^{mn} \) is only a function of shadow prices associated to the same zone \( i \), see the next section for more details. As land prices are known, we can clearly see that the production of land \( X_i^n \) is only a function of the shadow prices of the same geographical zone \( i \) (there is no sum or dependence involving other zones \( j \)). Of course we have interactions between other economical sectors in the
same zone, but in practice, the number of economical sectors is much smaller than the
number of zones, which leads to optimisation problems (one per zone) that are very
small, with the number of variables equal to that of land use sectors. We can re-write
the optimisation problem (3.4) as one optimisation problem for each geographical zone $i$:

$$\forall i \min_{h_i} \|X_i(h_i, X_0) - X_{i0}\|^2$$

(3.7)

Just as an example, for the North-Carolina-1 model (see later), there are only 3 land
sectors: apartments, mobile-homes, detached houses.

Once the optimisation is done for each geographical zone and the shadow prices for land
use are computed, we can proceed to computing the optimal shadow prices of the trans-
portable sectors. We will further exploit this feature of the model to obtain an automated
calibration of the substitution parameters. The details of the derivative estimation for
the optimisation algorithm for the land use sectors can be found in the appendix.

3.3 New approach for computing the induced production of
transportable sectors

Transportable sectors, are economical sectors that consume (and can be consumed) in a
different location from where they are produced. Housing and commerce are examples of
such sectors. For this type of sector, the technical coefficients $a^{mn}_i$ are considered constant
and in all practical usages of Tranus, the substitution probabilities $S^{mn}_i = 1$, i.e., there is
no substitution considered in the transportable economic sectors (this is not a limitation
of the model, rather it is common practice). Realising this implies that the total demand
$D^n_i$ is not a function of the prices or the shadow prices, and enables the computation of
the total demand $D^n_i$ (2.2) for each transportable sector $n$ and geographical zone $i$ only
as a function of the base year data $X_0$. In fact, this is done just after computing the land
use sectors’ shadow prices.

Thus, in the computation of the induced productions of a transportable sector $n$, $X^n_j$ (cf.
(2.7): $X^n_j = \sum_i D^n_i (Pr^n_{ij})$,we only need to determine the values of the location probabilities
$Pr^n_{ij}$. If we go back to the definition of the location probabilities (2.4) and the underlying
utilities (2.3), we realise that the utility makes no distinction between the price and
shadow price part, so if we set:

$$\phi^n_j = p^n_j + h^n_j$$

(3.8)

the location probability can be computed as a function of $\phi$. Instead of posing the induced
production as a function of $(h, p, X_0)$, we can look at the induced production $X(\phi, X_0)$ as
a function of $\phi$. Obtaining the optimal values of $\phi$ that minimise the difference between
computed and observed productions, is the solution to the following problem:

$$\min_\phi \|X(\phi) - X_0\|^2 .$$

(3.9)

Since the location probability $Pr^n_{ij}$ is a function only of the $\phi^n$ variables for the same
sector $n$, we get one optimisation problem for each economical sector $n$. Each of these
optimisation problems is relatively simple and small in size, there are as many variables as
geographical zones. The gradient of the cost function can be computed analytically using
the well known derivatives of the logit probability \( Pr \). We use the Levenberg-Marquardt method to solve each problem. Once all the optimal values of \( Pr \) have been computed, we can compute the prices by solving the linear system (2.9) for prices. Doing so allows us to recover the shadow prices from \( \phi \), subtracting the prices from the respective optimal \( \phi \) values.

One consideration that one has to deal with, is that the location probabilities \( Pr \) follow a logit formulation, so they can only be identified up to a constant per economical sector. This is a known property of logit models. As the prices are obtained from equation (2.9), this approach is considerably simpler and more stable than solving the double-objective optimisation approach proposed in (3.4), moreover, it exploits every little detail of the formulation of each function of the model. It also permits to calibrate incrementally, starting by the land use sectors and then obtaining the calibration in the transportable sectors. From the mathematical point of view it is also simpler, because the large optimisation problem in (3.4) is now decoupled into smaller optimisation problems, with fewer variables, allowing the modeller to finish the calibration of one set of variables before moving to the next stage.

To summarise, in the case of land use (non-transportable) sectors, there is one small optimisation problem to be solved for each geographical zone, whereas for the transportable sectors, we have one optimisation problem per economic sector.

We encountered some numerical issues relied to the fact the the location probability would vanish for large values of the utility function; this behaviour is explained in D.

### 4 Simultaneous estimation of shadow prices and land use substitution parameters

As stated in the introduction, one would like to have a simultaneous estimation of the whole set of parameters. In this section we present one step in this direction, we have constructed a two-phase algorithm that permits the estimation of the shadow prices and the substitution parameters at the same time. We have chosen the penalising factors in the substitution sub model because these are very hard to calibrate parameters, as relevant data are not readily available. The scheme we propose exploits the fact that the substitution sub model is used for land sectors, where we have already a simplified computation of the productions, as explained in Section 3.2. Tranus models include a discrete choice sub-model that represents the households’ ability to choose among different types of residential buildings (i.e., floor space). That choice is captured in the “substitution model”. The model is driven by the substitution probabilities:

\[
S_{imn}^i = \frac{W_i^m \exp(-\omega_{imn}^m a_{imn}^i \cdot (p_i^n + h_{i}^n))}{\sum_{l \in K^m_i} W_i^l \exp(-\omega_{ilm}^m a_{ilm}^l \cdot (p_i^l + h_{i}^l)))}.
\] (4.1)

Here, \( K^m \) represents the set of substitutes that sector \( m \) has access to, for example, for “rich” households \( m \), this could be \( K^m = \{\text{condos, detached houses}\} \). Using Tranus terminology, \( W_i^n \) is an “attractor”, a parameter that represents attributes of floor space sector \( n \) other than cost (utility); it is specified (and potentially calibrated) for each zone.
in which sector \( n \) is present. From equation (3.6) we can see that the demand coefficient \( a_{mn} \) is also a function of the prices and shadow prices. It is important to remember that prices are known for land sectors.

Simultaneous calibration of shadow prices and penalising factors

1. **Phase 1: estimating parameters’ initial values with multinomial logistic regression.** The substitution model’s parameters are estimated with multinomial logistic regression [7]. The data that are essential for estimation are household level observations on floor space consumption, housing expenditure, and the Tranus sector to which the household belongs. The dependent variable in a regression will be the choice of floor space sector, and the independent variable is the housing expenditure. The regressions are conducted separately for each household sector, and they yield estimates of \(-\omega_{mn}\) for each combination of floor space sector and household sector.

2. **Phase 2: fine tuning the penalising factors.** The penalising factors estimated in Phase 1 probably still need to be fine tuned to reduce the differences between the predicted production of floor space and the observed production of floor space. Fine tuning probably would also be necessary to achieve reasonable values of the floor space sectors’ shadow prices.

If we consider all of Tranus’ parameters fixed except the parameters \( \omega \), and include these parameters in the optimisation problem presented in (3.4), we obtain the following cost function:

\[
    f(h, \omega) = \| X(X_0, h, \omega) - X_0 \|^2 .
\]  

(4.2)

We would like to find the values of \( \omega \) that reduce the corresponding shadow prices. We propose to solve the following equation:

\[
    \min_{\omega \in \Omega} f(h = 0, \omega) \quad (4.3)
\]

where \( \Omega \) is a set of bounds over the penalising factors \( \omega \). We used a conjugate-gradient algorithm to solve this problem, and the starting points are the values obtained from the Multinomial Logistic regression of Phase 1. If we call \( \omega^* \) the solution of (4.3), then the final values for the shadow prices for the land use sectors are:

\[
    h^* = \arg \min_h f(h, \omega^*) .
\]

The details and derivative estimation are presented in the appendix.

5 Generation of Synthetic Scenarios

The evaluation of a LUTI calibration is a difficult process, mainly due to the noise in the data and the fact that obtaining ground truth information is almost impossible.
Our optimisation scheme needs as input the base years’ productions and parameters \((X_0, \text{parameters})\). Then, the calibration is done against this information. We could think of a model that does not need the shadow prices to attain a perfect fit, hence, create a synthetic scenario where a “perfect” fit is achieved with shadow prices set to zero. To generate this “perfect fit” scenario, we have to solve a subproblem of the original calibration optimisation problem exposed in (3.4), where we do not consider the observed productions. We only need to obtain equilibrium in prices, and compute the values of the induced productions afterwards. To do so, we replace the consumption cost equation (2.8) in the prices (2.9), and by identifying the location probability as 
\[ Pr_{ij}^{n} = \frac{X_{ij}^{n}}{D_{i}^{n}}, \]
we obtain the following system:

\[
\begin{align*}
    p_{m}^{i} &= VA_{m}^{i} + \sum_{n} a_{i}^{m} s_{i}^{m} \sum_{j} Pr_{ij}^{n}(h, p) \cdot (p_{j}^{n} + tm_{ij}^{n}) \\
    p_{2} &= VA_{2} + a_{2} \cdot Pr_{21} \cdot (p_{1} + tm_{21}) + a_{2} \cdot Pr_{22} \cdot p_{2}
\end{align*}
\]  

(5.1)

The dependence of the location-choice probability makes this system hard to solve even for small models. Our approach to solve this fixed-point equation is to solve the following optimisation problem:

\[
\min_{p} \| \hat{p}(h, p) - p \|^2.
\]

(5.2)

We have to make sure that the solution of (5.2) is a set of prices that are in equilibrium, that is for which \( \hat{p} = p \). After obtaining convergence in the prices, we compute the productions and then use them as observed base year productions in our synthetic scenario. This methodology produces a scenario where the optimal value of the shadow prices is zero (by construction) and that reproduces the base years’ productions perfectly. We could also set the shadow prices value to any other value than zero here. The generation of such a synthetic scenario enables us to test our calibration methodology and optimisation algorithms against a known optimal value (shadow prices equal to zero). The details of the implementation are in C.

### 5.1 Equilibrium prices in synthetic scenario: 1 economical sector, 2 zones

In this section we present a simple example that shows that the equilibrium pricing problem can be complicated, and that uniqueness of the solution is not guaranteed. Let us consider only one economical sector \( m = 1 \) (we will just drop the exponent \( m \) in the following) and two geographical zones \( i, j \in \{1, 2\} \). Let us consider no substitution, i.e. \( S_{11} = S_{21} = 1 \). The equilibrium condition (5.1) can be re-written by two equations:

\[
\begin{align*}
    p_{1} &= VA_{1} + a_{1} \cdot Pr_{11} \cdot p_{1} + a_{1} \cdot Pr_{12} \cdot (p_{2} + tm_{12}) \\
    p_{2} &= VA_{2} + a_{2} \cdot Pr_{21} \cdot (p_{1} + tm_{21}) + a_{2} \cdot Pr_{22} \cdot p_{2}
\end{align*}
\]

(5.3)

It is important to notice that \( tm_{11} = tm_{22} = 0 \). This simple case is very sensitive to the values of the different parameters. We managed to find combinations of the different parameters \((VA, a_{i} \text{ and } tm_{ij})\) that give rise to multiple solutions, one solution or no solution at all, for the prices, see Figure 3. The curves where very sensitive to the
demand coefficient $a_i$. This example shows that modifying a certain parameter can shift
the whole set of prices to a different equilibrium, and that the modeller has to be aware
of this behaviour.

We were curious to know if this problem had multiple solutions, and even in this simple
case it had proven to be complex. This gives us a starting point to further investigate the
problem of potential existence of multiple fixed points for our calibration problems, even
though in practice we have not observed problems of convergence to wrong local minima.

6 Results

6.1 Results of Shadow Price Calibration

We consider the example exposed in [2], a simple model that allows to illustrate the
methodology for generating synthetic scenarios with perfect fit (with “ground truth”
shadow prices equal to zero). We applied our approach to the Example_C model from the
Tranus website\(^1\), a small model with 3 zones and 5 sectors. First, we generated synthetic
data from that model as described just above, with shadow prices $h_n^i = 0$ for each sector
$n$ and zone $i$. As expected, the cost function is zero at $h = 0$, and increases its value when
we get away from the optimum. The cost function appears to be locally convex near the
optimal value, cf. figure 4.

If we consider for example sector 1 and zone 1, we can plot a “slice” of the cost function
(3.4) near the optimal value $h_1^1 = 0$, $p_1^1 = 2.676$ as shown in figure 4. Here we can observe
that as the shadow price gets larger the cost increases up to a plateau state ($X_1^1(h) \to 0$).
In the case of the price $p$, if we move away from the optimal value $p = 2.676$, the cost
increases quadratically.

We tested the robustness of the optimisation scheme with 1,000 random initial sets of
shadow price values; the optimisation procedure outlined in this paper always converged
to the ground truth solution. The initial values of shadow prices in these random trials
were generated from a uniform distribution in $[-10, 10]$, which is highly representative
(prices are in the interval $[0, 4]$ and nearly all shadow prices of a model are in practice
smaller than the corresponding prices).

\(^1\)http://www.tranus.com/tranus-english
We also applied the same procedure to a Tranus model for North-Carolina (North-Carolina-1 model, consisting of 102 zones and 12 economical sectors) modified by our synthetic data methodology. After setting the desired value for the shadow prices to $h = 0$, we tried 10,000 random initial sets of shadow prices values; and the algorithm proved to converge to the correct shadow prices for every single starting point. As for the calibration procedure implemented in Tranus’ release, it failed to converge when starting values were too far away from the zero vector. We considered initial shadow prices uniformly distributed in the interval $[\epsilon \cdot -p_{\text{max}}, \epsilon \cdot p_{\text{max}}]$, where $\epsilon$ is a parameter in $[0, 1]$ and $p_{\text{max}}$ is the maximum observed price. As $\epsilon$ increases, the initial shadow prices can take values further away from the optimal solution $h^* = 0$. These initial values are representative of the expected values of shadow prices as one would like that shadow prices do not exceed prices. Table 1 presents the convergence status for each value of $\epsilon$ (1,000 random values where taken for each $\epsilon$). We observe that the iterative approach of Tranus fails to converge as the initial values get further away from the true solution.

Table 1: Comparison of calibration algorithms for the North-Carolina-1 model. Shown are the percentage of random trials for which the algorithms converged to the correct solution.

<table>
<thead>
<tr>
<th>$\epsilon$ value:</th>
<th>0</th>
<th>0.1</th>
<th>0.2</th>
<th>0.3</th>
<th>0.4</th>
<th>0.5</th>
<th>0.6</th>
<th>0.7</th>
<th>0.8</th>
<th>0.9</th>
<th>1.0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tranus software</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>63%</td>
<td>3%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Our algorithm</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

6.2 Reducing the number of shadow prices, early results

We propose a model selection scheme to reduce the number of shadow prices needed to have a model reproduce the observed data. The classical approach is to iteratively modify the parameters until a perfect fit is achieved (with near zero cost function), when this is achieved the modeller will look at the values of the shadow prices as a quality test for the calibration. If the shadow prices are large, it means that the model has to compensate the various effects of the other economical parameters to attain a perfect fit. Thus, the modeller will tweak economical parameters (such as dispersion parameters) to maintain
the perfect fit but with smaller shadow prices. A calibration will be completed when the model reproduces the observed data perfectly and the values of the shadow prices are small (for some economical sectors we will ask their variance to be small instead). As there are as many shadow prices as observations we are trying to fit (there is one shadow price per observed production) the risk of overfitting is possible, which will in turn undermine the predictive capabilities of the model. What we propose, is sacrificing the perfect fit of the cost function, in order to lower the number of parameters to calibrate, particularly of shadow prices. To find the optimal trade-off between how many shadow prices we keep in the model and the desired value of the cost function is something that will have to be discussed with the community of modellers. What we propose here, is a simple model selection scheme that instead of having one shadow price per economical sector and zone, we keep only one shadow price per geographical zone. In this case, for the North-Carolina-1 model, as there are only 3 economical sectors for the land, we reduce by two thirds the complexity of the model. The calibration of the remaining third of shadow prices gave rise to a residual fit of the cost function of only 3% (ratio of residuals over observed productions).

Selecting the shadow prices to be kept in the model is easily done for the land sectors (non-transportable), because the prices (rents) are known. We achieved this, by computing the optimal shadow prices from (3.1) and setting to zero the “small” shadow prices. One can adjust the threshold used to declare shadow prices as being small to a desired level in the cost function, thus keeping more or less shadow prices. We also see in Figure 5 that the values of the shadow prices relatively to the prices have not seen a large increase.

Figure 5: The graphs show ratios of calibrated shadow prices over prices. Left: when all shadow prices are estimated (in this case, the fit of computed to observed productions is perfect). Right: here only one third of shadow prices are estimated, the others are set to zero. The fit is not perfect but good (3%, see text). Note that the scales of the two graphs are different. One can observe that on the right-hand side, shadow price to price ratios are not much larger than on the left-hand side, another indicator that it is plausible to exclude many shadow prices from the calibration.

We are currently working on testing this methodology for two time periods, to determine if noise in the base year productions could really propagate to the shadow prices and undermine the predictive capabilities of the model.
6.3 Results of Estimation of Shadow Prices and Substitution Parameters

We applied this procedure to a second real-scale LUTI model for North-Carolina (North-Carolina-2 model), with 38 zones, 3 floorspace and 9 other economic sectors. Figure 6 shows the shadow prices for all zones and floorspace sectors, after the two phases of our process, cf. section 4. After each phase, a global equilibrium of demand, production and prices, is achieved, however after the novel second phase, shadow prices are much smaller, meaning that the model represents reality much better (small ratios of shadow prices over prices is a crucial criterion used by practitioners to assess the quality of a Tranus LUTI model).

![Figure 6: Ratios of shadow prices and prices after phase 1 (left) and 2 (right). Note the different scales of the graphs.](image)

7 Conclusions and final remarks

The Tranus LUTI framework is a very powerful tool and the modelling possibilities are endless. However, the complexity of these large scale models is something that can not be underestimated, making the calibration and utilisation of these tools very expensive. We have contributed with a reformulation of the land use module that simplifies the calibration process, exploiting the very basics of the mathematics that are behind the microeconomic models used, permitting the expert to incrementally calibrate the variables (from land use sectors to transportable sectors). The optimisation approach is more stable and clear than the classical approach, and enables the use of powerful optimisation algorithms currently available, solving the non convergence issues of the previous approach.

The procedure exposed for generating synthetic data is simple and straightforward, enabling us to try and benchmark our methodologies. We are currently preparing a set of benchmarks of calibrated models.

The proposed methodology for reducing the number of shadow prices needs additional fine tuning, but is a first step in what we consider a promising direction. We believe
that the model “as it is” with one shadow price per observation bears a risk of overfitting. Determining which shadow prices have to be removed may not be completely automisable, and the expert eye of the modeller has to have the last call.

Finally, the simultaneous calibration of different parameter types is a potentially very powerful tool. The results that we have for the North Carolina models have proven to be useful and saved many trial and error sessions. We would like to apply this idea of simultaneous optimisation to other “hard” to calibrate parameters, and we are working with modellers to identify them. A fully integrated and automatic calibration is our dream.

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References


A Detailed mathematical description

A.1 Land use economical sectors

If we consider land-use sectors, many simplifications are done to the equations of the model. Production is estimated using equation (3.5). The technical coefficient \( a_{mn}^{i} \) represents the demanded amount of sector \( n \) by sector \( m \) in zone \( i \) and is described by the equation (3.6). For the land use sectors, the consumption costs \( \tilde{c}_{ni}^{i} \) are equal to the price paid: \( p_{ni}^{n} + h_{ni}^{n} \), where the prices \( p_{ni}^{n} \) are known. Then equation (4.1) is as follows:

\[
S_{mn}^{i} = \frac{W_{ni}^{n} \exp(-\omega_{mn}^{i} a_{mn}^{i} (p_{ni}^{n} + h_{ni}^{n}))}{\sum_{p \in K^{m}} W_{pi}^{p} \exp(-\omega_{mp}^{i} a_{mp}^{i} (p_{pi}^{n} + h_{pi}^{n}))}.
\] (A.1)

In the following, we will note \( U_{mn}^{i} = -\omega_{mn}^{i} a_{mn}^{i} (p_{ni}^{n} + h_{ni}^{n}) \).

Derivative estimation:

Let us consider \( m \) and \( m' \) as consuming sectors, \( n \) as land use sector and \( q \in K^{m} \)

\[
\frac{\partial a_{mn}^{i}}{\partial h_{ni}^{n}} = \begin{cases} 
-\delta_{mn}^{i} \text{gap}_{mn}^{i} e^{-\delta_{mn}^{i} (p_{ni}^{n} + h_{ni}^{n})} & q = n \\
0 & q \neq n
\end{cases}
\] (A.2)

The well known logit derivatives for \( S_{mn}^{i} \) are:

\[
\frac{\partial S_{mn}^{i}}{\partial h_{ni}^{n}} = \begin{cases} 
\frac{\partial U_{mn}^{i}}{\partial h_{ni}^{n}} [S_{mn}^{i} - S_{mn}^{i2}] & q = n \\
-\frac{\partial U_{mq}^{i}}{\partial h_{ni}^{n}} S_{mn}^{i} S_{mq}^{i} & q \neq n
\end{cases}
\] (A.3)

if \( q \neq n \), then \( \frac{\partial U_{mn}^{i}}{\partial h_{ni}^{n}} = 0 \), then for \( q = n \):

\[
\frac{\partial U_{mn}^{i}}{\partial h_{ni}^{n}} = -\omega_{mn}^{i} [\frac{\partial a_{mn}^{i}}{\partial h_{ni}^{n}} (p_{ni}^{n} + h_{ni}^{n}) + a_{mn}^{i}] \\
= -\omega_{mn}^{i} [a_{mn}^{i} - \delta_{mn}^{i} \text{gap}_{mn}^{i} (p_{ni}^{n} + h_{ni}^{n})] e^{-\delta_{mn}^{i} (p_{ni}^{n} + h_{ni}^{n})}]
\] (A.4)

With these results, we can compute the gradient of the production function exposed in (3.5):

\[
\frac{\partial X_{ni}^{n}}{\partial h_{ki}^{k}} = \partial \sum_{m} (X_{0i}^{m} + X_{0i}^{*m}) \frac{\partial a_{mn}^{i} S_{mn}^{i}}{\partial h_{ki}^{k}} \\
= \sum_{m} (X_{0i}^{m} + X_{0i}^{*m}) \frac{\partial a_{mn}^{i}}{\partial h_{ki}^{k}} S_{mn}^{i} + a_{mn}^{i} \frac{\partial S_{mn}^{i}}{\partial h_{ki}^{k}}.
\] (A.5)
We can do the same computations for $\omega$ and get:

$$\frac{\partial X^n_i}{\partial \omega^{mq}} = \sum_{m \in K^n} (X^n_{0i} + X^n_{0i}^*) a^{mn}_i \frac{\partial S^{mn}_i}{\partial \omega^{mq}} = (X^n_{0i} + X^n_{0i}^*) a^{mn}_i \frac{\partial S^{mn}_i}{\partial \omega^{mq}}$$

(A.6)

where:

$$\frac{\partial S^{mn}_i}{\partial \omega^{mq}} = \begin{cases} -a^{mn}_i (p^q_i + h^q_i) S^{mn}_i & q = n \\ a^{mq}_i (p^q_i + h^q_i) S^{mn}_i & q \neq n \end{cases}$$

replacing (A.7) in Equation (A.6):

$$\frac{\partial X^n_i}{\partial \omega^{mq}} = \begin{cases} -(X^n_{0i} + X^n_{0i}^*) (a^{mn}_i)^2 (p^q_i + h^q_i) [S^{mn}_i - S_i^{mn2}] & q = n \\ (X^n_{0i} + X^n_{0i}^*) a^{mn}_i a^{mq}_i (p^q_i + h^q_i) S^{mn}_i S^{mq}_i & q \neq n \end{cases}$$

(A.7)

A.2 Transportable Sectors

The location probability derivatives follow the well-known logit derivatives:

$$\frac{\partial P_r^m_{ij}}{\partial h^k_i} = \begin{cases} -\lambda^m \beta^m \left[ P_r^m_{ij} - P_r^m_{ij2} \right] & k = j \\ \lambda^m \beta^m P_r^m_{ij} P_r^m_{ik} & k \neq j \end{cases}$$

If we consider the optimisation function exposed in (3.4), we need to compute derivatives for $\hat{p}$. From equation (2.9) the derivatives are as follows:

$$\frac{\partial \hat{p}^n_i}{\partial h^q_k} = \sum_n \frac{\partial a^{mn}_i}{\partial h^q_k} S^{mn}_i \hat{c}^n_i + a^{mn}_i \frac{\partial S^{mn}_i}{\partial h^q_k} \hat{c}^n_i + a^{mn}_i S^{mn}_i \frac{\partial \hat{c}^n_i}{\partial h^q_k}$$

and equation (2.8):

$$\frac{\partial \hat{c}^n_i}{\partial h^q_k} = \begin{cases} \sum_j \frac{\partial P^m_{ij}}{\partial h^q_k} (p^q_j + tm^q_{ij}) & \text{if } q = n \text{ is transportable} \\ 0 & \text{else} \end{cases}$$

as $\frac{\partial P^m_{ij}}{\partial h^q_k} = 0$ for $q \neq n$;

$$\frac{\partial \hat{c}^n_i}{\partial h^q_k} = -\lambda^n \beta^n (P_r^m_{ik} - P_r^m_{ik2}) (p^q_k + tm^q_{ik}) + \lambda^n \beta^n \sum_{j \neq k} P_r^m_{ij} P_r^m_{ik} (p^q_j + tm^q_{ij})$$

The utility function is linear in the prices and the shadow prices, so the derivative estimation where the utility is involved are the same for $h^q_i$ and $p^q_i$. In this case, we have to compute differently for the prices:

$$\frac{\partial \hat{c}^n_i}{\partial p^q_k} = \begin{cases} P_r^m_{ik} + \sum_j \frac{\partial P^m_{ij}}{\partial p^q_k} (p^q_j + tm^q_{ij}) & \text{if } n \text{ is transportable} \\ 1 & \text{else} \end{cases}$$
Finally, the partial derivatives for the complete cost function, are as follows:

\[
\frac{\partial f}{\partial h_k^n} = \frac{\partial}{\partial h_k^n}[||X - X_0||^2 + ||\hat{p} - p||^2] \\
= \frac{\partial}{\partial h_k^n}[\sum_n \sum_j (X_j^n - X_{j0})^2 + \sum_n \sum_j (\hat{p}_j^n - p_j^n)^2] \\
= 2[\sum_n \sum_j (X_j^n - X_{j0}) \frac{\partial X_j^n}{\partial h_k^n} + \sum_n \sum_j (\hat{p}_j^n - p_j^n) \frac{\partial p_j^n}{\partial h_k^n}]
\]

They are all that is needed to apply standard non-linear least squares optimisers.

**B New approach for computing the induced production of transportable sectors**

Let us consider a transportable sector \( n \). The demand for sector \( n \) in zone \( i \) follows the equation:

\[
D_i^n = D_i^{*n} + \sum_m a_{mn}^i S_{mn}^i (X_{m}^i + X_{m}^{*i})
\]

Tranus is a very general model with a very large potential, but in practice many simplifications are made. For example, in the models we have considered, there is no substitution for transportable sectors. This condition simplifies the equation above, due to leading to \( S_{mn}^i = 1 \) for \( n \). Also, the technical coefficient \( a_{mn}^i \) does not depend nor on the prices or shadow prices and is estimated externally. As we want to compute the demand for the base year production, we replace the \( X_{m}^i \) from above by the base year production \( X_{m0}^i \), thus transforming the demand into a constant that does not change between iterations (it depends neither on prices nor on shadow prices).

If we come back to the initial computations of induced production \( X \) from equation (2.7),

\[
X_j^n = \sum_i D_i^n P_{rij}^n
\]

if we consider that the probability \( P_{rij}^n \) is a function of \( \phi_j^n = p_j^n + h_j^n \), we can rewrite the calibration as an optimisation problem independently for each economic sector \( n \) as exposed in (3.9), more precisely:

\[
\min_{\phi_1^n, \ldots, \phi_J^n} \sum_j |X_j^n(\phi_1^n, \ldots, \phi_J^n) - X_{0j}^n|^{2}
\]

(B.1)

Since this is an independent problem for each economical sector \( n \), we will drop the index. If we name \( \Phi \) the optimisation function of (B.1):

\[
\Phi(\phi_1, \phi_2, \ldots, \phi_J) = \sum_j [((\sum_i D_i^m P_{rij}(\phi_j))] - X_{0j}|^{2}.
\]

Knowing that the demand \( D_i^n \) is constant, the derivatives are as follows:

\[
\frac{\partial \Phi}{\partial \phi_k} = 2 \sum_j (\sum_i D_i^m P_{rij}(\phi_j) - X_{0j}) D_i^m \frac{\partial P_{rij}^n}{\partial \phi_k}
\]
\[
\frac{\partial \phi^*_n}{\partial \phi_k}
\]
is analogous to (A.7).

Once the optimal value \( \phi^* \) of the optimisation problem exposed in (B.1) is obtained, the prices can be extracted from the linear system (2.9). Finally the shadow prices can be computed subtracting the corresponding \( p^n_j \) from \( \phi^n_j \). Due to the nature of the logit model, the value of the shadow prices is defined up to a constant. One could desire to fix the shadow price of one particular zone to zero for example, or what we actually do, just subtract the average value thus obtaining centered shadow prices.

## C Synthetic Scenario Construction

For testing purpose, we propose a way of generating data sets that correspond to productions \( X \) equal to the inputed productions \( X_0 \) for a given set of shadow prices \( h_0 \).

If we consider a fixed set of shadow prices \( h_0 \), we need to obtain prices that are in equilibrium. To do so, we solve (2.9) until convergence is attained for the give set of shadow prices \( h_0 \). We iterate until the value of \( X \) and \( p \) from one iteration to the next one remains constant, obtaining a pair \( (\hat{X}, \hat{p}) \) that has attained convergence. It is important to notice that given \( h_0 \) is fixed, when \( p \) attains an equilibrium status, the production \( X \) is in equilibrium too. Doing so, is equivalent to solving the optimisation problem exposed in (5.2)

The first approach was for a given scenario, with in the \( X_0 \) case, the output \( \hat{X} \) attained on the convergence of the system. This does not work, as the output value of \( \hat{X} \) is calculated using the input value \( X_0 \). More specifically, the attractor \( A^n_i \) of the logit formulation for the location probability (2.4) follows the equation:

\[
A^n_i = W^n_i \left( \sum_k b^n_k X^n_0 \right)^{\alpha^n}
\]

where \( W^n_i \) is the inputed attractor variable for zone \( i \) and sector \( n \), \( b^n_k \) and \( \alpha^n \) are technical coefficients. As the computed production depends on the location probabilities, the computed \( \hat{X} \) is a function of \( X_0 \), the base year production. We need to modify the values of \( W^n_i \) as follows:

\[
\hat{W}^n_i = \frac{A^n_i}{\left( \sum_k b^n_k \hat{X}^k \right)^{\alpha^n}}
\]

So, to set \( \hat{X} \) as the equilibrium production, we rewrite both \( X_0 \) and \( W \):

\[
X_0 \leftarrow \hat{X}
\]

\[
W \leftarrow \hat{W}
\]

Doing this, we can have a scenario that perfectly reproduces the base year’s production for a given set of shadow prices \( h_0 \). In practice we use \( h_0 = 0 \).
D Numerical aspects

Local optimisation may converge to local minima. We observed this in practice, depending on the setting of the parameter $\beta$ and on the starting point for the $\phi$. An observation that seemed strange at first sight, was as follows. When estimating the $\phi$ for one sector, after convergence, the residuals of the cost function were all non-zero (besides for two zones for which observed production was zero). Further, all these residuals, besides for one zone, were exactly equal to one another and the residuals summed up to approximately zero. This seemingly strange behaviour has an explanation, as follows.

First, it must be noted that the sum of computed productions, does not depend on the values of the $\phi$:

$$\sum_j X^n_j = \sum_j \sum_i D^n_i Pr^n_{ij} = \sum_i D^n_i \sum_j Pr^n_{ij} = \sum_i D^n_i$$

If the data are coherent, then the sum of computed productions must equal that of observed ones:

$$\sum_j X^n_j = \sum_j X^n_{0j}$$

Hence, the sum of residuals must be equal to zero, as was observed in practice.

The other issue concerned the fact that all non-zero residuals but one, were exactly equal to one another. This can be explained as follows. For one zone $j$, the value of $\phi_j$ was sufficiently large at some stage of the estimation, so that the computed probabilities $Pr_{ij}$ effectively became equal to zero, for all $i$: the absolute value of the argument of the exponential $exp(-\beta(\lambda\phi_j + t_{ij}))$ became so large that the exponential effectively got evaluated to zero. This in turn means that the computed production for that zone, also was computed as zero since

$$\sum_j X^n_j = \sum_j \sum_i D^n_i \underbrace{Pr^n_{ij}}_0 = 0$$

Hence, the residual for zone $j$ is non-zero, and actually equal the (negative of the) observed production $X_{0j}$. Since the sum of residuals over all zones must equal zero, as shown above, we must have:

$$\sum_{k \neq j} (X_k - X_{0k}) = -X_{0j}$$

Remember that the cost function to be minimised is the sum of squared residuals; as for the zones other than $j$, this means:

$$\min \sum_{k \neq j} (X_k - X_{0k})^2$$

It can be shown that given the constraint that the sum of residuals must equal a known value, the cost function is a minimum if that known value is equally apportioned to
the residuals, i.e. if all the residuals are equal to that value, divided by the number of residuals:

$$\forall k \neq j : X_k - X_{0k} = -\frac{X_{0j}}{\sum_{k\neq j} 1}$$

This explains the observation made in practice, described above.