

the analysis (computing EMVs and selecting the best

- a. working backward (starting on the right and moving to the left).
- b. working forward (starting on the left and moving to the right).
- c. starting at the top of the tree and moving down.
- d. starting at the bottom of the tree and moving up.

15. In assessing utility values,

- a. the worst outcome is given a utility of -1.
- b. the best outcome is given a utility of 0.
- c. the worst outcome is given a utility of 0.
- d. the best outcome is given a value of -1.

16. If a rational person selects an alternative that does not maximize the EMV, we would expect that this alternative

- a. minimizes the EMV.
- b. maximizes the expected utility.
- c. minimizes the expected utility.
- d. has zero utility associated with each possible payoff.

3-14 Briefly discuss how a utility function can be assessed. What is a standard gamble, and how is it used in determining utility values?

3-15 How is a utility curve used in selecting the best decision for a particular problem?

3-16 What is a risk seeker? What is a risk avoider? How does the utility curve for these types of decision makers differ?

Problems

3-17 Kenneth Brown is the principal owner of Brown Oil, Inc. After quitting his university teaching job, Ken has been able to increase his annual salary by a factor of over 100. At the present time, Ken is forced to consider purchasing some more equipment for Brown Oil because of competition. His alternatives are shown in the following table:

FAVORABLE MARKET		UNFAVORABLE MARKET	
EQUIPMENT		MARKET (\$)	
		MARKET (\$)	
Sub 100	300,000	Sub 100	-200,000
Oiler J	250,000	Oiler J	-100,000
Texan	75,000	Texan	-18,000

For example, if Ken purchases a Sub 100 and if there is a favorable market, he will realize a profit of \$300,000. On the other hand, if the market is

means the problem may be solved with Excel QM; and X means the problem may be solved with QM for Windows;

the EMV with sample information.

the EMV with sample information. Also give an example of a good decision that you made

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