

ISM-E1004 - Business Analytics 2, Lecture, 8.1.2024-19.2.2024

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To make sure all answers are saved
always finish your attempt before time is up!
Time left 2:15:29

Question 4

Flag questionMarked out of 12.00Complete

A company is considering whether to invest into a high-risk external project or a virtually risk-free internal project. The profit from the external project depends on whether a remote economic market experiences an upturn or a downturn. If there is an upturn, the external project will yield a profit of 7.5 thousand euros but if there is a downturn, the external project will cause a loss of 2 thousand euros. The internal project will yield one thousand euros regardless of the market developments. The company has estimated the probability of there being an upturn in the remote market to be 0.5. The company is risk-neutral in its investment decision making. (Note: the parameter values may be different than in the previous question.)

To obtain more accurate information about the probability of the remote market experiencing an upturn, the company can purchase a market study at cost 0.4 (in thousands of euros). The market study gives either a favourable or an unfavourable result. Based on historical data, the probability of the study giving a favourable result given that the remote market actually has an upturn is 0.8. The probability that the study gives an unfavourable result given that the market actually has a downturn is 0.8.

What is the expected monetary value (in thousands of euros) corresponding to the **optimal decisions through the decision tree**? Use two decimals. (Currency symbol is not needed in the answer.)

In this problem, you get three tries such that after each incorrect try, one third (33%) of the maximum points is deducted.

Answer: 2.90

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