

Contents

- I. INTRODUCTION
- II. THE CASE STUDY
- III. THE FIVE-STEP PROCESS
- IV. THE WALKTHROUGH
- V. SOLVED EXAMPLES
 - A. INDIVIDUAL QUESTIONS FROM XAT 2008
 - B. GROUPED QUESTION FROM XAT 2008
 - C. GROUPED QUESTIONS FROM XAT 2009
- VI. REASONS BEHIND ELIMINATING OPTIONS
- VII. PRACTICAL VS. IDEAL

Decision Making

I. INTRODUCTION

The Analytical Reasoning section in the XAT exam has a typical question type called decision making. The questions feature word-based case studies as opposed to mathematical and logical sets of the past years. The decision making process involves a different kind of logic- not the rule based logic applied to solve logical reasoning sets but a logic that helps us make actual practical decisions in work or business.

This question type presents a hypothetical question related to a hypothetical situation. It gives a set of options that represent the various methods in which the problem can be resolved. The nature of the case study may vary from ethics to business processes, but at the end, a decision has to be made that takes care of all aspects of the problem posed by the situation.

Here is an example of such a case study taken from the XAT 2008 exam:

II. THE CASE STUDY

“Seema was a finance manager in an MNC and felt that gender discrimination at the workplace hampered her career growth. Frustrated, she quit the job and started a new company. While starting her company, she decided that she would have equal proportion of males and females. Over the last six years, Seema emerged as a very successful entrepreneur and expanded her business to eight locations in the country. However, Seema recently started facing an ethical dilemma because she realized that female employees were not willing to travel across cities and work late hours, as the work required them to do so. Male employees did not hesitate undertaking such work. Seema started to feel the pressure of reducing the proportion of female employees. On the other hand, she is aware that equal representation was one of the strongest reasons for her to have founded the company.”

The Question

“What should she do as a conscientious female entrepreneur?”

These are the ways in which the problem can be handled. The student has to pick the best option out of these, based on his analysis of the case study.

The Options

- 1. See if unwilling female employees could be given assignments which do not require travel and involve less overtime.*
- 2. Reduce the number of female employees, as it is a business requirement. She should not let anything affect her business.*
- 3. Let the status quo continue.*
- 4. Henceforth, hire only male employees.*
- 5. She should close the business.*

III. THE FIVE-STEP PROCESS

Solving a decision making question involves five steps in all. They are:

1. Reading the Case Study

Read the case study and highlight the relevant points. Get a basic understanding, assimilate and correlate the facts and pay attention to nuances. While reading, try to putting yourself in the shoes of the people involved. Cases can be long and have many facts to analyse– particularly in the time available in exam situations. So

focus on getting an overview while reading the case.

2. Reading the Question

Since the case study may have more than one question, it is important not to get lost in its details and to understand what exactly is being asked.

3. Analysing the Options

The options of a typical decision making question are not right or wrong, black or white. They will always be in differing shades of gray– you have to pick the best shade. All options, including the wrong ones, will be framed keeping in mind that they are relevant to the situation explained in the case study. However, there will be certain and, most probably, very subtle differences between them. While reading every option, you have to take note of these differences and strike the right balance.

4. Eliminating Options

This is the most important process as it helps you narrow down to the most sensible option. Keeping your analysis of the case study and the question asked at the back of your mind, go through the options trying to look for points that make them less agreeable in comparison to the other options. There are many things that can make an option seem worthy of elimination. These are elaborated in a later section of this chapter.

5. Verifying your answer

When you have eventually come up with an option that seems to fit the bill, you need to verify it by placing it in the case study. Once again, go back to the case study and the question and judge the relevance of your chosen option with respect to suitability and practicality. This added assurance is a definite requirement for students who tend to get lost in the finer details and lose track of the bigger picture.

IV. THE WALKTHROUGH

Now that the theory has been sorted out, let us solve the same case study mentioned at the beginning of this chapter. We will be using the five steps discussed earlier so this is the time when you need to note the relevance of each of those steps.

Step 1 – Reading the case study

Seema was a finance manager in an MNC and felt that gender discrimination at the

workplace hampered her career growth. Frustrated, she quit the job and started a new company. While starting her company, she decided that she would have equal proportion of males and females. Over the last six years, Seema emerged as a very successful entrepreneur and expanded her business to eight locations in the country. However, Seema recently started facing an ethical dilemma because she realized that female employees were not willing to travel across cities and work late hours, as the work required them to do so. Male employees did not hesitate undertaking such work. Seema started to feel the pressure of reducing the proportion of female employees. On the other hand, she is aware that equal representation was one of the strongest reasons for her to have founded the company.

A detailed look at the case study will bring to light the following key points:

- Seema quit her job because she faced gender discrimination in the company.
- She founded a new company based on the principle of equal representation of men and women.
- The case study quotes no other reason for Seema to start her own company.
- Her company was highly successful and spread to other locations in the country. For 6 years of the company's functioning, she faced no issues.
- She has recently started facing a dilemma: her female employees are unwilling to work late hours or travel across cities– an important requirement at work– while their male counterparts do not hesitate in undertaking such work.
- The case study does not specify any other criteria in which the female employees are found lacking.
- Seema is running a successful business enterprise and is pressured to reduce the proportion of female to male employees as is her requirement.
- The dilemma lies in the fact that she will be going against the reason for which she had envisioned founding a new company.
- By the structure of the case study, it can be assumed that Seema originally had faced the same problem that her female employees will face if she decides to reduce the proportion of female employees. However, one thing clearly stands out– while Seema did not complain at all about the nature of her work, her employees are the ones who are unwilling to undertake certain tasks.

Keep these key points in mind and advance to the next step.

Step 2 – Reading the Question

What should Seema do as a conscientious female entrepreneur?

The question is straightforward and has no underlying interpretation. It simply

asks what line of action Seema should follow to solve her dilemma.

Two things to be noted in this question are:

- Use of the word 'conscientious' – it means in accordance with one's conscience or principles.
- Reference to Seema as a female entrepreneur – This implies that her status as an entrepreneur, not just as a women, is responsible for making a sensible decision.

Based on these two points, it can be seen that both sides of her dilemma are equally balanced as she has to act according to her principles which are in conflict with her decisions as an entrepreneur.

Step 3 – Analysing the Options

Now, let us analyse each of the given options and single out the finer points that require our attention.

Option 1 - *See if unwilling female employees could be given assignments which do not require travel and involve less overtime.*

This implies that no restructuring in hiring that will impact the sex ratio is being done. This option aims at reallocating work among existing employees in such a way that male employees get assignments that involve travel and late hours while the female ones get assignments that do not involve these two things.

Option 2 - *Reduce the number of female employees, as it is a business requirement. She should not let anything affect her business.*

The phrase 'reduce the number' over here can mean only one thing – that the female employees who refuse such assignments be asked to leave the company. There is no mention of reducing the proportion that could have implied hiring more males.

Option 3 - *Let the status quo continue.*

This is a simple option that says a lot. It says that the dilemma that is currently a dilemma will cease to be a dilemma later!

Option 4 - *Henceforth, hire only male employees.*

This option targets at increasing the number of males so that the proportion of females over males is reduced from its current level. This is exactly what she is being pressured into doing as mentioned in the case study.

Option 5 - *She should close the business.*

This is as it reads – Seema gets annoyed and after six years of hard work and commitment, decides to shut her business.

Step 4 – Eliminating options

It is important to start eliminating the options based on things that do not fit into our analysis of the situation so far.

Option 1 – This option is really strong. It is the perfect middle path between the two extremes of Seema's dilemma. It does not reduce the proportion of female employees, which is in accordance with her belief system. It also helps her streamline her company's work processes by optimizing the workload on employees based on personal preferences. There is nothing wrong in this one so far.

Option 2 – This option is very extreme in nature. If Seema starts laying people off for these reasons, then pretty soon she won't have many employees to run the company with. Besides, a stronger reason than not being able to stay till late is required to constitute grounds for termination of an employee. This option is definitely NOT the right choice.

Option 3 – This option adds nothing to the situation. It is nonsensical. If the situation had to be dealt with in this manner, then it wouldn't have been a 'situation' to begin with. This option is also definitely NOT the right choice.

Option 4 – This seems like a strong option too. It is not as extreme as option 2. It definitely attempts to tackle the problem by hiring male employees since the female ones face the much discussed issue. However, it falls short in front of option 1 because it is very vague. It is not clear if male employees will be hired at the same positions to replace the issue-facing female employees. Does it ensure work optimization? Not really. What does it do? It gives hope that things might get better with time. Unfortunately though, this hope comes at a price – this option is in direct conflict with Seema's principle on which she founded this company. All in all, even though this option makes sense, it has to be rejected.

Option 5 – The simplicity of this option is paralleled only by its unbounded absurdity. This option is eliminated straight away.

Step 5 – Verify your answer

Revisiting the case study will help us list down our understanding and be confident of our answer choice. The following points can be inferred from the case study:

- Seema faced a dilemma in her company
- She had to choose between compromising on her principle of gender equality or let her company's overall efficiency be hampered by the current situation.
- This dilemma tested Seema's ethical boundaries since she had first started this company because she had felt discriminated against in her job.

- Clearly, a middle path is required because as a budding entrepreneur, she cannot let her company suffer because of this issue.
- Option 1, although most difficult to implement, still provides the best middle path as it helps her to accommodate both conflicting sides of the situation.

We are now sure that option 1 is indeed the best line of action Seema should opt for to resolve the dilemma, strike the right balance between running her company and abiding by her principles.

V. SOLVED EXAMPLES

In this section, we shall look at all the decision making questions that appeared in XAT 2008 and XAT 2009. A brief explanation is provided at the end of each question. Try solving them on your own and then verify your analysis with the help of the explanation.

Decision making questions can be categorized into two types:

- Individual questions– A mini case study is given and a single question is asked.
- Grouped questions– A lengthy case study is given and multiple questions are asked.

A. INDIVIDUAL QUESTIONS FROM XAT 2008

Example 1:

A database software manufacturing company found out that a product it had launched recently had a few bugs. The product has already been bought by more than a million customers. The company realized that bugs could cost their customers significantly. However, if it informs the customers about the bug, it fears losing credibility.

What would be the most ethical option for the company?

- (1) Apologize and fix the bug for all its customers even if it has to incur losses.
- (2) Do not tell customers about bugs and remove them only when customers face problems, even if it means losses for the customers.
- (3) Keep silent and do nothing.
- (4) Keep silent but introduce an improved product that is bug free at the earliest.
- (5) Take the product off the market and apologize to customers.

Explanation:

The question asks you to choose the most ethical option of the given five. This will clearly eliminate options 2, 3 and 4 as these options are highly unethical.

Between options 1 and 5, option 1 seems to be a better way out since it will not harm the market credibility of the company as much as option 5 will. Also, long term losses will be more in the case of option 5, since customers will not be convinced to buy products from a company that is not confident of their products.

Hence, the correct answer is **option 1**.

Example 2:

The city of Nagar has a population of 10 million, 2 million amongst whom were rich, 3 million poor and 5 million belonged to the middle class. Saundarya Cosmetics manufactured and sold beauty products to the rich class at a premium price. Its products were very popular with customers. Many people from middle and poor segments of population aspired to buy these products but could not afford them because of high prices. Of late, sales growth was stagnating in the rich segment.

Which of the following is the best option for Saundarya Cosmetics to maximize long term profits?

- (1) Sell the same products at lower prices to middle and poor classes.
- (2) Sell its products under different brand names to middle and poor classes.
- (3) Sell similar products, of different quality standards with different brand names, to middle classes and poor classes.
- (4) Continue to target rich and hope that today's middle class would be tomorrow's rich class.
- (5) Target middle class as it is the largest segment and forget about the rich.

Explanation:

Options 1, 2 and 3 target the same thing– making their products affordable to the middle and lower class segments. However, all three have different approaches.

Option 5 takes it a step further by withdrawing the products from the rich segment. Clearly, this will not maximize profit, so option 5 can be eliminated.

Option 4 leaves the situation as it is and will not work towards maximizing profits. Hence, it should be eliminated.

A close look at options 1 and 2 brings to light the fact that these two options are similar but differently worded. Also, it assumes the fact that the middle class segment will continue to aspire to buy these products under a different brand name. Both these options are thus eliminated.

Option 3 targets the problem by making a similar product available to a section of consumers who aspire to buy the same products that the rich segment buys and hence will work best to maximize profits. As the products are similar but not the same, the existing client base is not neglected.

Hence, the correct answer is **option 3**.

Example 3:

You, a recruitment manager, are interviewing Mayank, a hard-working young man, who has problems in speaking fluent English. He has studied in vernacular medium schools and colleges.

Amongst the following options, what would you choose to do, if your company has vacancies?

- (1) I would hire him at all costs.
- (2) I would hire him for a production or a finance job but not for a marketing job, which requires good communication skills.
- (3) I would ask him to improve his communication skills and come back.
- (4) I would not hire him as he might be a burden on the organization because of his poor communication skills.
- (5) I would hire him for the job he is good at, and provide training in other areas.

Explanation:

Since it is not mentioned in the case study, we will assume that Mayank is perfect for all vacancies in all other aspects other than his communication skills.

Option 1 is eliminated because of its vague nature. The phrase 'at all costs' is too unclear for this option to make sense.

Option 2 is incorrect because Mayank could not be hired without providing any training as communication is a very essential skill that is required to work efficiently. People from Production and Finance department should also have good enough communication skills since one has to communicate within the company as well.

Both options 3 and 4 are extreme since they undermine all other aspects of Mayank's profile and give undue importance to his communication skills. Also, if he is told to improve his communication and come back again, he might not come back and the company may lose a hard working employee.

Option 5 is the best option as Mayank (a hard-working young man) will be hired and provided with training in the required areas.

Hence, the correct answer is **option 5**.

B. GROUPED QUESTION FROM XAT 2008

Example 4:

Mr. Rajiv Singhal, Chairman of the Board of directors of Loha India Ltd. (a steel manufacturing company) had just been visited by several other directors of the company. The directors were upset with recent actions of the company president, Mr. Ganesh Thakur. They demanded that the board consider firing the president.

Mr. Thakur, recently appointed president, had undertaken to solve some of the management-employees problems by dealing directly with the individuals, as often as possible. The company did not have a history of strikes or any other form of collective action and was considered to have a good work culture. However, Mr. Thakur felt that by dealing directly with individuals, he could portray the management's concern for the employees. An important initiative of Mr. Thakur was to negotiate wages of the supervisors with each supervisor. In these negotiation meetings, he would not involve anyone else, including the personnel department that reported to him, so as to take unbiased decisions. After the negotiation, a wage contract would be drawn up for each supervisor. This, he felt, would recognize and reward the better performers. Mr. Thakur successfully implemented the process for most of the supervisors, except those working in the night shift. For them, he had drawn up the contracts unilaterally benchmarking the wages of supervisors of the night with that of the

supervisors of the day shift.

For several days, Ram Lal, a night shift supervisor, had been trying to seek an appointment with Mr. Thakur about his wages. He was disgruntled, not only over his failure to see the president, but also over the lack of discussions about his wage contract prior to its being effected. As a family man with six dependents, he felt his weekly wage should be higher than that granted to him. Last Thursday afternoon, Ram Lal stopped by the president's office and tried to see him. Mr. Thakur's secretary refused his request on the grounds that Mr. Thakur was busy. Infuriated, Ram Lal stormed into the president's office and confronted the startled Mr. Thakur, with his demands for a better wage. Mr. Thakur stood up and told Ram Lal to get out of his office and express his grievance through official channels. Ram Lal took a swing at the president, who in turn punched Ram Lal on the jaw and knocked him unconscious.

1. The most likely premise behind Mr. Thakur's initiative regarding individualized meetings with the supervisors seems to be:

- (1) Involvement of the company's president in wage problems of employees will lead to a better goodwill towards the management among the workers.
- (2) Employee related policies should allow scope for bargaining by employees which leads to unsatisfied employees.
- (3) Individual agreements with supervisors would allow the management to prevent any further collective action by the supervisors.
- (4) Management will be able to force supervisors to accept lesser wages individually this way.
- (5) He would be able to know who the trouble makers in the plant are by interacting with the supervisors.

Explanation:

This question asks you the intent behind the formulation of the policy which leads to the entire episode. The case study suggests that Mr. Thakur wanted to improve employee-management relationships and that was the reason behind coming up with this policy. Option 1 mentions the same thing.

Option 2 does not make sense. The second part of the sentence actually contradicts the first part.

Option 3 contradicts the case study by saying 'further collective action'. It is given in the case study that the company had had no history of strikes or aggressive collective action.

Option 4 is an inference based on certain assumptions and cannot be concluded from the case study.

Option 5 again is based on assumptions. These were not the primary causes for Mr. Thakur to formulate the policy.

Hence, the correct answer is **option 1**.

2. Out of the following, which one seems to be the most likely cause of Ram Lal's initial grievance?

(1) His disappointment with the management's philosophy of having one to one interaction as the supervisors were in a way being forced to accept the wage contracts.

(2) His being in the night shift had worked for his disadvantage as he could not interact with the management regarding his problem.

(3) He was not allowed to meet the chairman of the board of directors of the company.

(4) Employment in the night shift forced him to be away from his family during the day time and therefore he couldn't interact with his family members much.

(5) All of these.

Explanation:

The question asks the reason for Ram Lal's initial grievance and not his anger towards the president. His grievance was not being granted an interaction with the president like his peers in the day shift were.

Option 1 targets the policy and not Ram Lal's issue. It can be eliminated.

Option 2 states why Ram Lal felt that the president was being unfair to him. This is a good option.

Option 3 is an assumption. Nowhere in the case study is it mentioned that Ram Lal wanted to meet the Chairman of the board of directors. He was trying to meet the president.

Option 4, although plausible, is highly inferential and can, at best, only be assumed from the case study.

Clearly, of all these options, option 2 summarizes Ram Lal's grievance in the best manner.

Hence, the correct answer is **option 2**.

3. The most important causal factor for this whole episode could be:

- (1) Trying to follow a divide-and-rule policy in his dealings with the supervisors.
- (2) Paternalistic approach towards mature individuals in the organization.
- (3) Legalistic approach towards employee problems.
- (4) Inconsistent dealings of Mr. Thakur with supervisors.
- (5) Inadequate standards for measurement of supervisors on job performance.

Explanation:

The episode being talked about in the question is the last paragraph of the case study. The root cause of this episode was the disgruntlement faced by Ram Lal which was due to inconsistent policy making by the president. Option 4 best captures this reason.

Option 1 is incorrect since the policy followed by the president is hardly based on a divide and rule principle.

Option 2 fabricates information that is not mentioned in the case study and hence is incorrect.

Option 3 fabricates information, since neither is this approach legalistic in nature, nor is it mentioned in the case study as such.

Option 5 seems believable, but a closer look would reveal that the president's policy was not inadequate, it was his implementation that was inconsistent. This was the root cause of the episode.

Hence, the correct answer is **option 4**.

4. The situation with Ram Lal could have been averted if Mr. Thakur had:

- A. Delegated the task of negotiation of wage contracts for night shift employees to the personnel department.
- B. Created a process for supervisors working the night shift so that they could have an opportunity to interact with him.
- C. Created an open door policy that would have allowed employees to see him any time without any appointment.
- D. Postponed the decision of wage revision for supervisors of the night shift for two months, since supervisors were rotated on different shifts after every two months.

The option that best arranges these managerial interventions in decreasing order of organizational impact is:

- (1) D, B, C, A
- (2) D, C, B, A
- (3) D, C, A, B
- (4) D, A, B, C
- (5) B, C, A, D

Explanation:

Statement B is clearly the most relevant way in which the entire episode could have been averted. Ram Lal had come to meet the president only because unlike his peers in the day shift, he did not get the opportunity to do so.

Statement C follows since the immediate cause of Ram Lal's frustration was being denied the opportunity of meeting the president.

The indirect cause of this situation is given by statement A. If the president had let the personnel department do their job, this situation would never have arisen.

Statement D is just a temporary detour created to hold out the situation for some time. Besides, it is clear that even then, the night shift supervisors would have been flustered because of delay in their wage revision.

Hence, the correct answer is **option 5**.

5. Apart from the supervisors working the night shift, executives of which of these departments will have justified reasons to be disgruntled with Mr. Thakur?

A. Production department- for not being consulted regarding the behaviour of supervisors on the shop floor.

B. Finance department- for not being taken into confidence regarding the financial consequences of the wage contracts.

C. Marketing department- for not being consulted on the likely impact of the wage contracts on the image of the company.

D. Quality control- for not being able to give inputs to Mr. Thakur on how to improve quality of steel making process.

E. Personnel department- for it was their work to oversee wage policies for employees and they had been ignored by Mr. Thakur.

- (1) A, B and C

- (2) A, D and E
- (3) A, C and D
- (4) A, B and E
- (5) C, D and E

Explanation:

The personnel department definitely has a reason to be disgruntled with Mr. Thakur. Not only did he interfere with their functioning, but he also kept them out of the loop from all developments and meetings that took place in this entire process.

Options 1 and 3 can be eliminated since they do not have the personnel department listed.

Between options 2, 4 and 5, the quality control department has no reason to be disgruntled since they were least involved in the said process. Even the reason given is not related to the wage calculation for supervisors. This eliminates options 2 and 5.

Option 4 states that the three departments that stand to be disgruntled with Mr. Thakur are the personnel, production and finance departments. All the reasons quoted are also valid, maybe not to the same extent, but are valid nevertheless.

Hence, the correct answer is **option 4**.

6. Which of these following managerial attributes does Mr. Thakur seem to lack the most?

- (1) Emotional instability under pressure.
- (2) Proactive problem solving
- (3) Ethical behaviour
- (4) Independent decision making
- (5) Emotional stability under pressure

Explanation:

Option 1 is obviously incorrect as emotional instability is something Mr. Thakur has shown, he does not lack this.

Option 2 is incorrect since the decision to formulate the new policy came from proactive thinking. It might be considered proactive over-thinking, but nonetheless, it was still proactive.

Option 3 does not fit the bill since Mr. Thakur never behaved unethically in any case.

There are no hints in the case study that suggest that Mr. Thakur was not an independent decision maker. Thus, option 4 is also wrong.

Option 5 correctly states the one aspect Mr. Thakur definitely lacks. His lack of emotional stability under pressure was the biggest mistake he made in this whole situation.

Hence, the correct answer is **option 5**.

C. GROUPED QUESTIONS FROM XAT 2009

Example 5:

Read the following and choose the best alternative:

Decisions are often 'risky' in the sense that their outcomes are not known with certainty. Presented with a choice between a risky prospect that offers a 50 percent chance to win \$200 (otherwise nothing) and an alternative of receiving \$100 for sure, most people prefer the sure gain over the gamble, although the two prospects have the same expected value. (Expected value is the sum of possible outcomes weighted by their probability of occurrence.) Preference for a sure outcome over a risky prospect of equal expected value is called risk averse; indeed, people tend to be risk averse when choosing between prospects with positive outcomes. The tendency towards risk aversion can be explained by the notion of diminishing sensitivity, first formalized by Daniel Bernoulli in 1738. Just as the impact of a candle is greater when it is brought into a dark room than into a room that is well lit so, suggested Bernoulli, the utility resulting from a small increase in wealth will be inversely proportional to the amount of wealth already in one's possession. It has since been assumed that people have a subjective utility function, and that preferences should be described using expected utility instead of expected value. According to expected utility, the worth of a gamble offering a 50 percent chance to win \$200 (otherwise nothing) is $0.50 * u(\$200)$, where u is the person's concave utility function. (A function is concave or convex if a line joining two points on the curve lies entirely below or above the curves, respectively). It follows from a concave function that the subjective value attached to a gain of \$100 is more than 50 percent of the value attached to a gain of \$200, which entails

preference for the sure \$100 gain and hence, risk aversion.

Consider now a choice between losses. When asked to choose between a prospect that offers a 50 percent chance to lose \$200 (otherwise nothing) and the alternative of losing \$100 for sure, most people prefer to take an even chance at losing \$200 or nothing over a sure \$100 loss. This is because diminishing sensitivity applies to negative as well as to positive outcomes: the impact of an initial \$100 loss is greater than that of the next \$100. This results in a convex function for losses and a preference for risky prospects over sure outcomes of equal expected value, called risk seeking. With the exception of prospects that involve very small probabilities, risk aversion is generally observed in choices involving gains, whereas risk seeking tends to hold in choices involving losses.

Based on the above passage, analyse the decision situations faced by three persons: Babu, Babitha and Bablu.

1. Suppose instant and further utility of each unit of gain is same for Babu. Babu has decided to play as many times as possible, before he dies. He expected to live for another 50 years. A game does not last more than ten seconds. Babu is confused which theory to trust for making decisions and seeks the help of a renowned decision making consultant: Roy Associates. What should be Roy Associates' advice to Babu?

- (1) Babu can decide on the basis of Expected Value hypothesis.
- (2) Babu should decide on the basis of Expected Utility hypothesis.
- (3) "Mr. Babu, I'm redundant".
- (4) A and B
- (5) A, B and C

Explanation:

Since the instant and further utility of each unit of gain is same for Babu, the result of using both Expected Value hypothesis and Expected Utility hypothesis will be the same. Thus, Roy Associates can suggest either of the two to Babu.

Also, since the advice is same in both the cases, Babu will find that the advice of Roy Associates is redundant.

Hence, the correct answer is **option 5**.

2. Babitha played a game wherein she had three options with following probabilities: 0.4, 0.5 and 0.8. The gains from three outcomes are likely to be

\$100, \$80 and \$50. An expert has pointed out that Babitha is a risk taking person. According to expected utility hypothesis, which option is Babitha most likely to favour?

- (1) First
- (2) Second
- (3) Third
- (4) Babitha would be indifferent to all three actions.
- (5) None of the above

Explanation:

The gain in all the cases is the same. Now, it is given that Babitha is a risk taking person. Going by the Expected Value hypothesis, she would opt for the most risky option, i.e. the one with least probability of winning. The least probability is 0.4 in the first option.

Hence, the correct answer is **option 1**.

3. Continuing with the previous question, suppose Babitha can only play one more game, which theory would help in arriving at a better decision?

- (1) Expected Value
- (2) Expected Utility
- (3) Both theories will give same results.
- (4) None of the two
- (5) Data is insufficient to answer the question.

Explanation:

There is no data stating whether Babitha won or lost the previous game. This data would have been helpful in determining whether we have to use the diminishing sensitivity for the positive or the negative outcome. This can further tell us whether to use Expected Value theory or Expected Utility theory.

Due to the lack of data, we cannot determine which theory to use.

Hence, the correct answer is **option 5**.

4. Bablu had four options with probability of 0.1, 0.25, 0.5 and 1. The gains associated with each option are: \$1000, \$400, \$200 and \$100 respectively. Bablu chose the first option. As per expected value hypothesis:

- (1) Bablu is risk taking.

- (2) Expected value function is concave.
- (3) Expected value function is convex
- (4) It does not matter which option should Babu choose.
- (5) None of above

Explanation:

The expected value in all the cases is \$100.

Therefore, according to the expected value hypothesis, any option can be chosen.

Hence, the correct answer is **option 4**.

Example 6

Read the following caselet and choose the best alternative:

Om Chowdhury was one of the supervisors in the Fire and Safety (F&S) department of Maqsood Textile Mills. He was a distant cousin to Mr. Bhiwani, General Manager (Personnel & Administration). Personnel & Administration department was given the responsibility of all personnel related decisions. It was often rumoured that Om had obtained the job due to his cousin's influence. However, Om was meticulous in the performance of his duties and didn't give anyone reason for complaint. It was known that Om was not much given to talking and kept to himself and to his duties.

All F&S supervisors reported to Mr. Rabindra, the shop-floor manager. The mill operated on a three-shift basis and Rabindra allocated the supervisors to different shifts. They were required to be present at all times during the shift operation and carry out scheduled checks on of machinery and fire fighting equipments. For some reasons, Om was allocated the night shifts more often than other supervisors. Om accepted these allocations without any objection, while it was known that other supervisors would often plead and bargain with Rabindra to be allocated the day shifts. During the night shift, keeping awake and remaining mentally alert were some of the major challenges faced by the supervisors.

Of late, Rabindra observed signs of indifference from Om. On two occasions he found Om absent from his cabin. Rabindra heard from others that Om was often found in different parts of shop floor talking to employees. Rabindra called him to his office and reminded Om of his responsibilities. Om did not

counter Rabindra. He promised that he would not be lax in his duties again. Rabindra also broached the subject with Mr. Bhiwani. Mr. Bhiwani called Om to his office and talked on a very personal basis. He reminded Om that their family relations made it uncomfortable to all concerned. Om nodded and agreed to do better. Soon his performance became that of a model supervisor. It was often found he went beyond his official duties to sort out problems of employees.

About three month later, Rabindra happened to visit the plant during night. As he looked into F&S office, he found Om playing solitaire on the office computer. Mr. Rabindra immediately fired Om.

The next morning Mr. Bhiwani called Mr. Rabindra and asked how he can fire an employee. He suggested that Mr. Rabindra reconsider Om's dismissal. "This decision has already been made. There will be no turning back," replied Rabindra.

1. The options below give combinations of possible root causes of the problem and the justifications thereof. Given the details in the case, which one can be inferred to be the best option?

(1) Hiring of Om. Reason: That ensured Om was perpetually casual towards his duties.

(2) Om favouring to work during night shift. Reason: Absence of Rabindra ensured that Om could relax.

(3) Rabindra's bias against Om. Reason: Rabindra had been assigning too many night shifts to Om while for other supervisors he was lenient.

(4) Rabindra jumping to conclusions. Reason: He should have investigated whether Om had carried out his duties.

(5) Rabindra's firing of Om. Reason: It led to clash between Rabindra and Mr. Bhiwani.

Explanation:

Om was casual towards his duties only for a little while and started acting responsibly as soon as he was reminded of his duties. This means that his casual attitude was not perpetual. Hence, we can safely eliminate option 1.

Option 2 here is absolutely wrong as Om never showed any preference or disliking towards the night shift. Rabindra happened to assign more night shifts to Om because Om never refused or bargained with him. Others used to bargain or plead with Rabindra to get the day shift. This does not show that Rabindra had a bias against Om. This eliminates option 3.

The clash between Rabindra and Mr. Bhiwani was a minor issue and therefore Rabindra's firing of Om cannot be the root cause of the problem. This eliminates option 5.

Rabindra jumped to the conclusion that Om was careless towards his duties when he saw him playing solitaire. He needed to investigate the matter before making assumptions about Om.

Hence, the correct answer is **option 4**.

2. The details of the entire episode have become common knowledge among all the employees of the company. Out of the options below, which one presents the best way for the top management to resolve the issue so as to benefit the organization as a whole?

- (1) Revoke Rabindra's order. It can be communicated to others that firing was too severe a punishment for such a small incident of indiscipline.
- (2) Ask Om for clarification. It can be communicated that since Om had clarified regarding his duties, the order has been taken back.
- (3) Declare Rabindra's order as void. Reiterate officially the disciplinary processes that need to be followed by managers along with their scope of authority.
- (4) Ask feedback from other employees on the shop-floor regarding Om's performance. This can be used to revoke Rabindra's order.
- (5) Take the feedback of other F&S supervisors as to the work involved during night shift. This would better explain Om's behaviour.

Explanation:

Options 1 and 3, if used, would undermine the authority of Rabindra and would lead the employees to believe that personal relations of Om and Mr. Bhiwani bailed Om out of trouble. Thus, these actions would send out a wrong message. These options can, therefore, be safely eliminated.

The action suggested in option 5 also undermines the authority of Rabindra to some extent, which would certainly not be in the welfare of the organization as a whole. This leaves us with options 2 and 4.

A similar situation would be created if the action suggested in option 4 be implemented as it again bypasses Rabindra and allows the junior employees to rule against the decision taken by a senior.

By asking Om for a clarification, he is being given a chance to explain his part of

the story. Also, this action keeps the reputation of Rabindra intact. This is to the benefit of the organization as a whole.

Hence, the correct answer is **option 2**.

3. Out of the options below, which one best summarizes the learning from the solitaire incident?

(1) Managers often do not take any responsibility towards training juniors.

(2) People tend to become relaxed during night shift and require surprise checks to keep them on their toes.

(3) Certain roles would have different ways of carrying out their duties.

(4) Having relatives in the same organization can be a source of potential problems.

(5) Managers tend to allocate silent people to different positions.

Explanation:

The learning from the passage is that one should not judge based on what one sees without investigating properly. This summary, however, is not reflected in any of the 5 options.

Option 1 is vague as 'training' is not mentioned anywhere in the passage.

Option 5 is also very weak as allocation of employees to certain positions is certainly not learning from the incident.

Option 2 may seem correct but we know from the passage that Om did his duties properly and even went out of the way to help colleagues. This means that in no way could he have been relaxed and no surprise check was required to make sure he did his duties.

Option 4 also looks correct as the passage starts on this very note but it is not explicitly mentioned that Rabindra had a bias against Om for the very fact that he was related to Mr. Bhiwani.

Option 3 comes out strongest here. This comes from the fact that simply because Om was functioning in the role of a supervisor, it may not have been his duty to be standing or looking around the entire place all the time.

Hence, the correct answer is **option 3**.

4. Of the options below, which could have been a better response from Mr. Rabindra when he saw Om playing?

- (1) He should have clarified about his authority to fire employees.
- (2) He should have informed Mr. Bhiwani about the incident and asked him to take necessary action.
- (3) He should have asked the employees of the shift regarding Om's performance of his duties.
- (4) He should have checked if Om had done his duties or not.
- (5) He should have checked the production levels in the shift to see if it was as required.

Explanation:

Clarifying his authority to fire employees shows that Rabindra is not a confident manager and this by no means can be a good response. Option 1 can thus be eliminated.

As Rabindra does not report to Mr. Bhiwani, informing him about the incident and asking him to take the necessary action shows that he is bringing personal relations into work, which again is not an advisable course of action. Hence, option 2 is incorrect.

By asking the employees about Om, he may or may not receive a clear picture. Option 3 is a weaker option as compared to option 4. By checking if Om has done his duties or not, he can make a just decision.

Production levels in the shift depend on various other factors and are not directly related with Om performing his duties or not. Therefore option 5 is eliminated.

Hence, the correct answer is **option 4**.

Example 7:

Read the following caselet and choose the best alternative:

Shekhar, an MBA from Singapore, returned to his hometown- Jamshedpur. Jamshedpur had a population of 10 lacs with one of the highest per capita income among Indian cities. Shekhar loved music. While listening to his favourite song on "satellite radio", he wondered if he could mix his passion with business. Incidentally, a few weeks later, while browsing the internet, he came across an advertisement from Music World, which called for expression of interest from potential franchisees. Jamshedpur did not have a single good music outlet, where its residents could buy quality, variety and the latest from

the world of music.

Music World wanted the potential franchisees to own minimum 1200 square feet space and invest Rs. 30 lacs. Profits were to be shared in the ratio of 3:7 between Music World and the franchisee.

While Shekhar was excited about working with a renowned brand, he was worried if Rs. 30 lacs was too high an amount to shell out. He did not have the entire amount with him and was thinking of borrowing from the bank. He made enquiries with other Music World franchisees located in towns like Patna and Ranchi, as he expected similar footfalls in Jamshedpur. A franchisee in Patna had sales revenue varying from 1-2 lacs rupees per month with profit margin in the range of 25-30%. Satisfied, Shekhar decided to proceed.

Soon, he was on a look out for the space. Jamshedpur had three main areas- Bistupur, Sakchi and Sonari. All areas were inter-connected by good roads. Bistupur was a business area where most of high end retail formats were located. Most upper middle class and higher class customers shopped there. It was also the education hub of the city. On the other hand, Sakchi was a growing lower middle class business area and Sonari had mostly residential population.

Shekhar was in favour of choosing Bistupur as it was the place where he shopped. However, he soon stumbled across problems. Not only was it difficult to obtain space in Bistupur, but property rentals touched 30-40 rupees per square feet per month. Rentals at Sakchi and Sonari were in the range of 15-20 rupees per square feet per month. Also, Shekhar's friend, who stayed in Sakchi, told him that a few branded outlets were opening in Sakchi and it seemed to be the fastest growing market in Jamshedpur, with highest ratio of teenagers. But, Shekhar was not in favour of Sakchi due to its low image. He expected to target college going crowd in Bistupur.

High real estate prices in Bistupur and his low assessment of Sakchi market created confusion in Shekhar's mind. To give the decision a serious and fresh thought, he decided to hit Jamshedpur-Ranchi highway in his newly acquired car.

1. How best should Shekhar resolve his confusion?

- (1) By investing in the franchise.
- (2) Do not invest in the franchise and look for different brand name.
- (3) Go back to Singapore and start looking for a job.
- (4) Do a further in-depth study to find the drivers and potential of the business.

(5) Approach another music company for setting up a franchise.

Explanation:

Option 3 is vague. Going back to Singapore and looking for a job there does not resolve Shekhar's confusion. Options 2 and 5 are similar in approach and both take a totally different course instead of helping Shekhar resolve his confusion.

Option 1 suggests that Shekhar should invest in the franchise. This decision can be only made after he is sure about the business venture and this is exactly what he needs help in resolving. So this is not the approach he should take.

The situation demands that Shekhar study the matter further. This is explicitly mentioned in option 4.

Hence, the correct answer is **option 4**.

2. Suppose sales in Patna and Bistupur are likely to be same, how many years would it take for Shekhar to recoup the investment (consider zero inflation)?

- (1) Less than five years
- (2) Less than seven years
- (3) Less than eight years
- (4) Less than nine years
- (5) May be never

Explanation:

Consider approximate values from the given data.

Monthly rent of the property (of required area) in Bistupur is Rs. 42,000.

Since the sales revenue in Bistupur is the nearly the same as that in Patna, the profit margin in Bistupur will be lesser as compared to Patna owing to higher real estate prices.

Assuming that Shekhar pays the rent from the profit that he makes, the profit (after sharing with the Music company in the ratio 3:7) comes out to be slightly lesser than the rent (assuming sales revenue to be Rs. 1.5 lac and profit margin to be 27.5%).

This means that he can probably never make clear enough profit to repay the initial investment of Rs. 30 lacs.

Hence, the correct answer is **option 5**.

3. What could be the most likely reason for Shekhar's bias in favour of Bistupur?

- (1) Presence of college going crowd, as he felt they were the customers for the latest music.
- (2) Crowded (hoi polloi) image of Sakchi.
- (3) It was difficult for Shekhar to associate non- Bistupur areas with good quality products.
- (4) Higher rentals in Bistupur.
- (5) Patronage of Bistupur shops by executives and their families.

Explanation:

The passage does not mention that Shekhar has a crowded image of Sakchi. The place however has a low image in general. Option 2 is therefore incorrect.

Option 3 can be inferred from the passage but it by no means is the most likely reason for Shekhar's bias in favour of Bistupur.

Higher rentals in Bistupur would only deter Shekhar from choosing Bistupur as the location. Option 4 is therefore exactly opposite to the answer we are looking for. Thus it can be safely eliminated.

The passage shows only Shekhar's patronage of Bistupur shops as he likes shopping there. There is no mention of shopping preferences of anyone else. Hence, this cannot be the most likely reason. This eliminates option 5.

The passage mentions that Shekhar expects to target the college going crowd.

Hence, the correct answer is **option 1**.

4. Which one of the following is the most important decision criterion in such a business situation?

- (1) Financial capability of entrepreneur
- (2) Changes in music industry
- (3) Future market growth
- (4) Profitability of business in first couple of years
- (5) Real estate prices

Explanation:

Options 2, 3 and 4 are merely speculative. These cannot be the criteria for taking a decision as their results are not known.

Shekhar is looking to borrow money from a bank and the lack of funds is not an issue with him. Thus, the financial capability of the entrepreneur is not the most important criterion.

A major deterrent in his decision is the property rates in different places. This makes real estate price a major criterion.

Hence, the correct answer is **option 5**.

Example 8:

[XAT 2010]

Read the following case and choose the best alternative:

Ranjan Tuglak, the youngest cabinet minister of the newly elected coalition, glanced through the notes prepared by his secretary regarding the recent controversies on *racket*, the most popular game of the country. While International Racket Association (IRC) has agreed to implement Drug Testing Code (DTC) promoted by World Athletic and Gamer Federation, Racket Club which controls the entire *racket* related activities (unlike any other sports and games of the country) had some reservations regarding the initiative. Majority of the citizens waited for the international competitions eagerly and were fanatical about their country's participation in them. As a result of the popularity of the game, 70% of the total revenue associated with the game originates from the country. Hence Racket Club has high bargaining power with IRC and can change any decision that is not aligned with its interests. Three most popular and senior players, including the captain, are against the application of DTC citing security reasons. A decision against the interests of these players may result in law and order problems throughout the country. Other players support the decision of their senior colleagues and if Racket Club refuses to agree, players may support Counter Racket Club, a new national level initiative. Counter Racket Club may threaten the monopoly of Racket Club, if it succeeds to attract some popular *racket* players.

Ranjan's father had been forced to resign from politics due to alleged corruption charges. Ranjan had completed his entire education from abroad before returning to join politics. He is a great soccer player and has major reservations against *racket*. According to him, *racket* has negative influence on the country's youth and diverts their attention from productive work. He also considers drug testing as an essential feature for any sports and games across

the world. As the new cabinet minister for Youth and Sports he needs to take some important decisions on this controversial issue.

1. If the objective of Ranjan is to (i) create a good image of himself as a politician and (ii) create a long lasting positive impact, the best decision he should take is :

(1) Force Racket Club to accept all modifications related to drug testing.

(2) Provide adequate security protection to the satisfaction of players nominated by Racket Club before enforcing drug testing.

(3) Align with Counter Racket Club.

(4) Popularise soccer in country through endorsements by the popular players of *racket*.

(5) Ban *racket*.

Explanation:

Option 1 is incorrect. By 'forcing' Racket Club to accept all modifications related to drug testing Ranjan will not create a good image of himself as a politician nor create a long lasting positive impact.

Aligning with Counter Racket Club will only cause discord. Therefore, option 3 can be eliminated.

Popularising soccer in the country through endorsements by the popular players of racket makes little sense. One cannot see how players of racket will succeed in popularizing soccer and help Ranjan's image. Therefore, option 4 can be eliminated.

Banning racket is a hugely counter-productive step since racket is the most popular game in the country. His image as a politician will certainly not be good if he was to take this step.

Therefore, option 5 is eliminated.

Option 2 is the most plausible answer option. The players want security and Ranjan, by providing security protection to the satisfaction of players, will create a good image of himself as a politician.

Hence, the correct answer is **option 2**.

2. Identify the best rationale that may force Ranjan as a politician to take a decision in favour of IRC.

- (1) President of Racket Club and Ranjan belong to different political coalitions and he can use Counter Racket Club against the opponent.
- (2) Next World cup is scheduled to be held in a country which has adopted DTC as the guiding principle.
- (3) Ranjan is interested in reducing the popularity of *racket* in country.
- (4) As the cabinet minister, Ranjan has the power to take such a decision.
- (5) Top three international teams (and respective national clubs) are keen to implement DTC.

Explanation:

Option 1 is too devious and scheming an objective. Besides there is no guarantee that Ranjan will succeed.

By reducing the popularity of racket, Ranjan will not gain anything. Secondly, this rationale does not answer the question stem of how Ranjan is **forced** to take a decision in favour of IRC. Option 3 is eliminated.

Ranjan can enforce a decision in favour of IRC but, the question stem specifically asks as to what will 'force' Ranjan to take a decision in favour of IRC. This rationale does not answer the question stem effectively.

Therefore, we can eliminate option 4.

Other teams being keen to implement DTC may not force Ranjan to take a decision in favour of drug testing since 70% of revenues associated with the game are generated in the country. Therefore, the country need not follow other team's dictates. Therefore, option 5 is eliminated.

If the next World cup is scheduled to be held in a country which has adopted drug testing, then it follows that, in order for the country to participate, its players must be tested. Otherwise, there is a strong possibility that the country may not be allowed to take part. We must also remember that racket is the most popular game in the country and the people will be very annoyed if the country does not participate in the next world cup when the majority waited eagerly for international competitions.

Hence, the correct answer is **option 2**.

3. According to DTC, each athlete/sportsperson need to submit a schedule for three months (in advance) that specifies an hour each day when they can be randomly tested for drugs. DTC also assured the confidentiality of the submitted schedule by (i) limiting the access of player-supplied information to

two senior officers, (ii) these officers will have the internet based access only to the schedule of those sports persons who are randomly selected for testing (and not of everyone) and (iii) introducing similar security features for DTC database as in case of financial institutions. Top three popular players realize that no reason other than security can help them to get a favourable decision from Ranjan. Hence during discussions they should focus on all options *except*:

- (1) Any clue related to their private schedules may also result in huge public gathering and it will make the job of security agencies very difficult.
- (2) Popular *racket* players are included in the hit list of terrorist organisations.
- (3) Recent report by World Bank rate their country among the top five nations with maximum amount of internet based data stealing.
- (4) It is difficult to provide adequate security coverage in large stadiums where *racket* is played.
- (5) DTC is not willing to share the details of two senior officers involved in drug testing with the security agencies of the country for background study.

Explanation:

Option 1- large public gatherings will call for security.

Option 2- popular racket players included in the hit list of terrorist organizations will definitely call for security.

Internet based data stealing possibility will definitely call for cyber security.

Option 5 will also call for some security measures to be taken.

In very large public gatherings such as stadiums, it would be commonly known that all the players would be present- they would be provided with adequate security by default, as a part of team security. Therefore, racket players should not focus on this aspect.

Hence, the correct answer is **option 4**.

VI. REASONS BEHIND ELIMINATING OPTIONS

Options should be eliminated because they are often:

Unclear in their meaning

At times options are too vague to be useful. They are minimally worded and are

generally on the right path but the unclear nature of these options can lead to multiple possibilities. A question that demands the most suitable mode of action cannot have an indistinct answer. These options are the most difficult to distinguish as they seem right at the first look. A comprehensive analysis of such an option often gives way to its inherent flaws.

Severe by nature

Options which are extreme in nature should always be avoided. These are the options that will see the situation in terms of black and white and will support one end of the spectrum without thinking of the other. They will be worded in such a way as to unbalance the entire equation and appeal to only one aspect of your thought process, unfortunately, in a very persuasive and convincing manner. However, because of their exaggerated appearance, these options are the easiest to eliminate if you know what you are looking for.

Similar to each other

Two options that mean the same is one of most repeated tricks in the question maker's bag of tricks-to-fool-the-test-taker. The recipe is simple– take an incorrect option and word it differently. This duplicate option will behave in every way like its parent but its appearance will be modified to give it a 'new look'. If you have done your analysis right, you will easily be able to look through these false appearances. Granted that spotting such similar options is a difficult task, but the effort is well compensated– you can eliminate not just one but both the options since the question cannot have two correct answers.

Complacent by nature

At times an option will add nothing to the problem statement. It basically asks you to let things continue the way they are going. If you analyze this logically, you will realize how redundant such an action would be. Why ask a question when you do not need an answer? However, there is one case where this option may not be entirely incorrect. If the question is a case study that does not state a problem but instead, just a situation which may or may not be ideal as it is then continuity might make sense. To determine if the given situation is one of these situations, you will need to put extra effort into your analysis of the case study.

Hollow and beyond the purview of the question asked

Sometimes, options are often snuck in to fill up empty space. The case study talks of a particular situation while the option talks of a different situation related to the subject of the case study. In itself, the option may be practical but it is of no relevance to the case study and so cannot be marked as the correct option.

Isolated from the question and data given

Sometimes options detach themselves from the question but not the case study. Typically, a case study includes a lot of data but the question asked is very specific. These options discuss things that are mentioned in the case study but not in the question asked. The level of familiarity you would experience with these options is more than what you would with the options discussed above since they talk about the actual case study. However, if your option does not answer the question, it stands to be eliminated.

VII. PRACTICAL VS. IDEAL

Nothing in life is complete without its share of complications. So here's the fine print- a little slip in your analysis and you could face a difficult situation.

How many times have you narrowed down your options to the last two and have had no clue what to do next? How many times have you realized later that it was because you missed something in your analysis that actually caused you to land in that situation?

Decision making, however, distinguishes itself in this regard. There are times when the two options that you narrowed down to are both equally valid decisions. This increases the level of difficulty. Here's how you take it with a pinch of salt ...

Decision making questions work primarily on logic and should be treated like all other questions of an entrance exam. However, there may be cases in which the correct answer to a question might depend on an individual's perspective. In such cases, it is generally easy to narrow down to two options- one of which is idealistic, whereas the other practical. Now, if all logic fails and both these options are flawlessly perfect, the way to get out of this muddle is to choose the more idealistic answer. Don't look left, don't look right, just mark it! However, it should be noted that before doing so, you should have analyzed all these options thoroughly and tested them for all the things mentioned earlier in the chapter. This method is a last resort and so, it makes sense to re-read the case study/question before getting into such a situation.

Be confident and trust your instincts- Decision making will be a breeze!

***** End of Lesson *****