HW6 - Chapter 10 - Schematic Tree and Decision Tree Analysis by Hand

Q1:

A financial advisor has recommended two possible mutual funds for investment: fund A and fund B. The return that will be achieved by each of these depends on whether the economy is good, fair, or poor. A payoff table has been constructed to illustrate this situation:

State of Nature			
Investment	Good Economy (GE)	Fair Economy (FE)	Poor Economy(PE)
Fund A	10,000	2,000	-5,000
Fund B	6,000	4,000	0
Probability	0.2	0.3	0.5

a) Draw the decision tree to represent this situation.
b) Perform the necessary calculations to determine which of the two mutual funds is better. Which one should you choose to maximize the expected value?
c) Suppose there is question about the return of fund A in a good economy. It could be higher or lower than 10,000$. What value for this would cause a person to be indifferent between fund A and fund B (ie., the EMVs would be the same)?

Q2:

Book: 10.9 a) and b)

Q3:

Book: 10.11 a) through d)

Q4:

Book: 10.13 a) through c)