

ALY6050 Module Six (Final) Project

Project: Two Optimization Problems:

- (i) A Transshipment Problem
- (ii) A Risk Minimizing Problem

The Module 6 Final Project consists of two parts. If using Excel, complete each part in a separate worksheet of the same Excel workbook (Name your worksheets: “Part 1” and “Part 2”). If using R, complete each part in a separate R script file. The submission of this project will consist of an Excel workbook (or two R script files if R has been used) and a Word document. For each part, write a minimum of 1500 words in the Word document describing your methods and your findings. Furthermore, the Word document should be according to the APA standards, i.e., it consists of a title page (including student’s name, assignment title, course number and title, the current academic term, instructor’s name, and the assignment completion date), and a reference page. The Word submission of each project will consist of three sections:

- (i) Introduction
- (ii) Analysis
- (iii) Conclusion

Part I: Rockhill Shipping & Transport Company

Allen, a manager of the South-Atlantic office of the Rockhill Shipping & Transport Company(RSTC) is negotiating a new shipping contract with Chimotoxic, a company that manufactures chemicals for industrial use. Chimotoxic wants Rockhill to pick up and transport waste products from its six plants to three waste disposal sites. Allen is very concerned about this proposal arrangement. The chemical wastes that will be hauled can be hazardous to humans or the environment if they leak. In addition, some of the communities in the regions where the plants are located may prohibit hazardous materials from being shipped through their municipal limits. Thus, not only the shipments have to be handled carefully and transported at reduced speeds, but they may also have to traverse in circuitous routes in some cases.

Allen has estimated the cost of shipping a barrel of waste from each of the six plants to each of the three waste disposal sites as shown in the following table.

	<u>Waste Proposal Site</u>		
<u>Plant:</u>	<i>Orangeburg</i>	<i>Florence</i>	<i>Macon</i>
Denver	\$10	\$8	\$9
Morganton	14	10	8
Morrisville	13	18	11
Pineville	15	11	12
Rockhill	9	12	9
Statesville	18	12	13

Table I: Shipping costs, per barrel of waste from six plants to three waste disposal sites

The plants generate the following amounts of waste products each week:

<u>Plant:</u>	<u>Waste per Week</u> <u>(bbl)</u>
Denver	45
Morganton	35
Morrisville	55
Pineville	50
Rockhill	30
Statesville	35

Table 2: Total Waste generated by each plant

The three waste disposal sites at Orangeburg, Florence, and Macon can respectively accommodate a maximum of **75, 85, and 90** barrels per week.

In addition to shipping directly from each of the six plants to one of the three waste disposal sites, Allen is also considering using each of the plants and the waste disposal sites as intermediate shipping points. In this case, trucks would be able to drop a load at a plant or a disposal site to be picked up and carried on to the final destination by another truck. Furthermore, RSTC would not incur any handling costs because Chimitoxic has agreed to take care of all the handling costs at the plants and at the disposal sites. In other words, RSTC's only cost will be the transportation cost. Therefore, Allen wants to be able to consider the possibility that it may be cheaper to drop and pick up loads at intermediate points rather than ship them directly.

Allen has estimated the shipping costs per barrel between each of the six plants to be as follows:

	<u>Plant</u>					
<u>Plant:</u>	Denver	Morganton	Morrisville	Pineville	Rockhill	Statesville
Denver	\$---	3	4	3	3	4
Morganton	3	\$---	3	3	2	4
Morrisville	4	3	\$---	3	3	2
Pineville	3	3	3	\$---	4	2
Rockhill	3	2	3	4	\$---	2
Statesville	4	4	2	2	2	\$---

Table 3: Shipping costs, per barrel of waste from each plant to another plant

The estimated shipping cost per barrel between each of the waste disposal sites is as follows:

	<u>Waste Proposal Site</u>		
<u>Waste Disposal Site:</u>	Orangeburg	Florence	Macon
Orangeburg	\$---	\$1	\$2
Florence	1	---	1
Macon	2	1	---

Table 4: Shipping costs, per barrel of waste between the three waste disposal sites

Allen wants to determine the shipping routes that will minimize RSTC's total cost in order to develop a contract proposal to submit to Chimotoxic for waste proposal. He particularly wants to know if it would be cheaper to ship directly from the plants to the waste sites or if he should drop and pick up some loads at the various plants and waste sites.

In the word document, explain the details of the solutions obtained for the optimal routes and their respective optimal costs for both cases. In particular for the case when loads are dropped and picked up at various plants and waste sites, explain how many barrels, in total, will be transported each week from a source to a destination.

If Chimotoxic agrees to increase the capacity of each of three waste disposal sites by **5** barrels per week – **Orangeburg(80), Florence(90), and Macon(95)**, what will happen to the shipping costs?
Hint: please discuss under above two scenarios(**direct shipping & transshipment**).

Part 2: Investment Allocations

An investor has selected the following asset types in his portfolio. The expected return for each asset type has been estimated by using the historical data:

	Expected Returns
CDs	5%
High tech stocks	28%
Foreign stocks	22%
Energy stocks	15%
Put options	15%
Gold	7%

Table 5: Expected returns of Investments

The following table indicates the covariance matrix of the assets' returns. Each diagonal entry is the variance of an asset and non-diagonal entries are the covariances between any pairs of assets.

	CDs	High tech stocks	Foreign stocks	Energy stocks	Put options	Gold
CDs	0.0015	-0.0003	0.0002	0.0005	-0.0005	0.002
High tech stocks		0.08	0.002	0.0023	-0.006	0.005
Foreign stocks			0.05	0.005	-0.02	-0.004
Energy stocks				0.04	-0.0017	-0.015
Put options					0.035	-0.0055
Gold						0.0085

Table 6: The Covariance matrix of assets' returns

- (i) Suppose that our investor wishes to invest **\$250,000** in this portfolio. Determine how we should allocate this investment to the individual assets in this portfolio in order to have at least the baseline expected return of **15%**, and at the same time, at a minimum risk.
- (ii) Let the solution pair be denoted by (r, e) , where “ r ” denotes the minimized risk and “ e ” denotes the expected portfolio return after the problem is solved. Use following values of **11%, 14%, 17%, 20%, 23%, 26%** as the baseline return values to obtain six pairs of solutions (r, e) . Plot “ e ” versus “ r ” (“ r ” should be the x-axis). Explain whether there exists a pattern in this plot. In other words, explain, in your opinion, the type of mathematical relationship that “ r ” and “ e ” may have.

Final Project Rubric

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Criteria	Ratings				Pts
Excel (or R): Problem Modeling & Set-up	48 pts Completely and concisely modeled the problem in Excel (or R) for each method	38.4 pts Accurately modeled the problem in Excel (or R) for each method	24 pts Correctly modeled the problem in Excel (or R) for each method, but the model lacks detailed insight into the problem or the set-up is awkward.	12 pts Modeled the problem in Excel (or R) for each method, but there are some gaps in the problem modeling and setup	48 pts
Excel (or R): Problem Solution & Accuracy	72 pts Efficiently obtained correct and accurate solutions in Excel (or R) by using the appropriate analytic tools of the software	57.6 pts Obtained complete and accurate solutions in Excel (or R) by using the appropriate analytic tools of the software	36 pts Obtained correct solutions in Excel (or R) using the appropriate analytic tools of the software, but the application of the tool is awkward.	18 pts Obtained a solutions in Excel (or R) by using the appropriate analytic tools of the software, but the solution is not complete.	72 pts
Word/Report: Problem Description & Introduction	8 pts Provides a thorough and concise summary of the problem descriptions and introduced the problem using rich and significant ideas	6.4 pts Provides an accurate and succinct summary of the problem descriptions and problem introduction	4 pts Provides an accurate summary of the problem descriptions and problem introduction, but the description is too wordy or not succinct	2 pts Provided a summary of the problem descriptions and problem introduction, but it is inaccurate or incomplete	8 pts
Word/Report: Description of Problem Analysis	12 pts Provides a thorough and precise description of the analytic concepts and theories used in analyzing the problem	9.6 pts Accurately describes the analytic concepts and theories used in analyzing the problem	6 pts Describes the analytic concepts and theories used in analyzing the problem, but description lacks appropriate detail or precision	3.01 pts Describes the analytical concepts and theories used in analyzing the problem, but descriptions are incorrect or the analytical concepts and theories are incorrect	12 pts
Word/Report: Description of Conclusions	12 pts Provides conclusions and results obtained in the project using a high level of critical thinking and reasoning	9.6 pts Provides relevant conclusions and results obtained in the project that reflect critical thinking and reasoning	6 pts Provides conclusions and results obtained in the project, but not all conclusions or results are relevant to the problem or not all conclusions reflect good reasoning	3.01 pts Provides conclusions and results obtained in the project, but they are irrelevant and reflect a lack of critical thinking	12 pts
Word/Report: Writing Mechanics, Title Page, & References	8 pts Completely free of errors in grammar, spelling, and punctuation; and completely correct usage of title page, citations, and references. The report contains a minimum of 1000 words	6.4 pts There are no noticeable errors in grammar, spelling, and punctuation; and completely correct usage of title page, citations, and references. The report contains a minimum of 1000 words	4 pts There are very few errors in grammar, spelling, and punctuation; and completely correct usage of title page, citations, and references. The report contains a minimum of 1000 words	2 pts There are more than five errors in grammar, spelling, and punctuation; or the usage of title page, citations, and references are incomplete; or the report contains less than 1000 words	8 pts
Total Points: 160					