MSIS 638

Case 2.1b

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a)

Research what ***sensitivity analysis*** means.

‘’Sensitivity analysis is a technique which allows the analysis of changes in assumptions used in forecasts.’’ Also, called as “What-if” analysis.

It helps answering the question like “How reliable are the assumptions made?”, “What happens if assumptions turn out to be significantly different in reality?” or “Which assumptions are most significant to the forecast?”

b)

1. Yes, by forecasting the business profit, many assumptions will be examined through this analysis method in the companies like Google, YouTube and Trivago.

2. Yes, I think sensitivity analysis is necessary to make an informed decision. The propose of many analytical tools in business is to forecast the additional market or insights and improve the company's business structure and revenue. So, the companies may have made many assumptions, therefore, sensitivity analysis is helpful to examine those assumptions in different scenarios.

3.

a. Earnings per share (EPS)

b. Quantitative (input - from range 1~999, depend on the item of our assumption)

c. Qualitative (input - from range 1~999, depend on the price or item of our assumption)

d. Risk assessment (Determine the potential risk of the assumption)

4. In my point of view, sensitivity analysis provides the method to identify the significant assumption which therefore require a closer attention. Also, this analysis makes the process of business forecasting more robust. Through calculating the key parameters and access risk for scenarios. The additional insights would provide business more informative and accurate forecast and risk assessment to their products’ profit. All in all, sensitivity analysis is not only a financial model, but also a useful method to help enterprises detect their potential problem inside the strategies.