

IE5203 Decision Analysis
Solutions to Chapter 1 Exercises

P1.2 Your Personal Indifferent Selling Price or Certainty Equivalent for the deal = \$75. This is what the deal is worth to you if you keep it.

If you pay \$ X for the perfect information, you will finally have $\$100 - \X .

At the point of indifference between buying and not buying the information:

$$100 - X = 75 \Rightarrow X = \$25.$$

Note that this value is only an approximation, and is exact only under some conditions which you will learn in Chapters 4 and 6.

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|-------------|------|---|-----------------------------|
| P1.3 | I. | His personal indifferent buying price = \$46 | <u>Not necessarily true</u> |
| | II. | His personal indifferent selling price = \$46 | <u>Not necessarily true</u> |
| | III. | His personal indifferent buying price \geq \$46 | <u>True</u> |
| | IV. | His personal indifferent buying price \leq \$46 | <u>Not necessarily true</u> |

P1.4 **I.** Clarity of Action

P1.5 **II.** If the manager refuses to give her a refund she should leave, since she prefers not to be there.