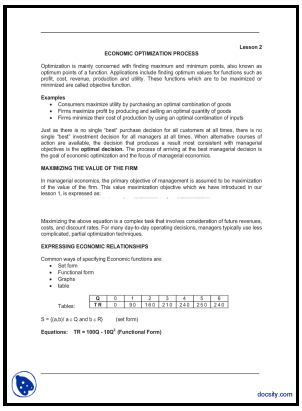
On the theory of optimal investment decision.

Bobbs-Merrill - Top 3 Approaches to Investment



Lesson 2

ECONOMIC OPTIMIZATION PROCESS

Optimization is mainly concerned with finding maximum and minimum points, also known as optimum points of a function. Applications include finding optimum values for functions such as profit, cost, revenue, production and utility. These functions which are to be maximized or minimized are called objective function.

Examples

- Consumers maximize utility by purchasing an optimal combination of goods
- Firms maximize profit by producing and selling an optimal quantity of goods
- Firms minimize their cost of production by using an optimal combination of inputs

Just as there is no single "best" purchase decision for all customers at all times, there is no single "best" investment decision for all managers at all times. When alternative courses of action are available, the decision that produces a result most consistent with managerial objectives is the optimal decision. The process of arriving at the best managerial decision is the goal of economic optimization and the focus of managerial economics.

MAXIMIZING THE VALUE OF THE FIRM

In managerial economics, the primary objective of management is assumed to be maximization of the value of the firm. This value maximization objective which we have introduced in our lesson 1, is expressed as:

Maximizing the above equation is a complex task that involves consideration of future revenues, costs, and discount rates. For many day-to-day operating decisions, managers typically use less complicated, partial optimization techniques.

EXPRESSING ECONOMIC RELATIONSHIPS

Common ways of specifying Economic functions are:

- Set form
- Functional form
- Graphs
- table

Tables:

Q	0	1	2	3	4	5	6
TR	0	90	160	210	240	250	240

S = {(a,b)/ a ∈ Q and b ∈ R} (set form)

Equations: $TR = 100Q - 10Q^2$ (Functional Form)

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Optimal Capital Structure and Investment Decisions

Applying the rollback principle, we again begin with Decision 2. For many purposes, including the determination of the level of aggregate demand, gross investment is the relevant concept.

EconPapers: On the Theory of Optimal Investment Decision

The adjustment of the proportion of assets will have many adverse effects, so the correct policy may be to maintain the status quo rather than optimize. The Hayekian perspective conceives of investment as the adjustment to equilibrium and thus the optimal amount of investment is effectively a decision on the optimal speed of adjustment. The decisions governing one will inevitably affect the other, but it is not necessarily the case that one is reducible to the other.

Optimal Investment Decision of the Recycle Economic Projects Based on Game Options

The sixth chapter summarizes the full text and points out the shortcomings of this paper.

Optimal Investment Decision of the Recycle Economic Projects Based on Game Options

The other is about the desired rate of investment flow. Jan Tinbergen, for example, has argued that realized profits accurately reflect expected profits. There is no comprehensive text on investment theory.

Optimal Investment Financing Decisions and the Value of Confidentiality

On the basis of this, in recent years, the emerging entropy method has begun to attract the eyes of economists with its unique nature and superior theoretical advantages. Since the change in the capital stock from time period t — 1 to time period t equals net investment, I t — D t we have Consequently, net investment equals A multiplied by the difference between the desired capital stock in time period t and the actual capital stock in time period t- 1.

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