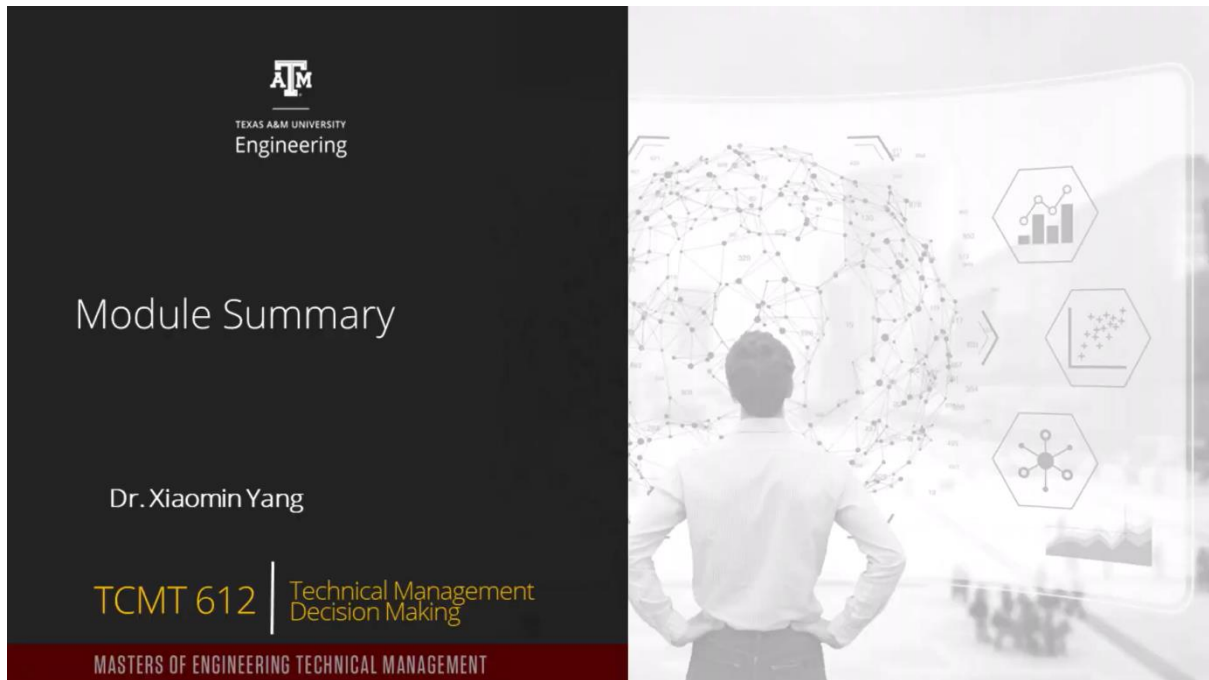


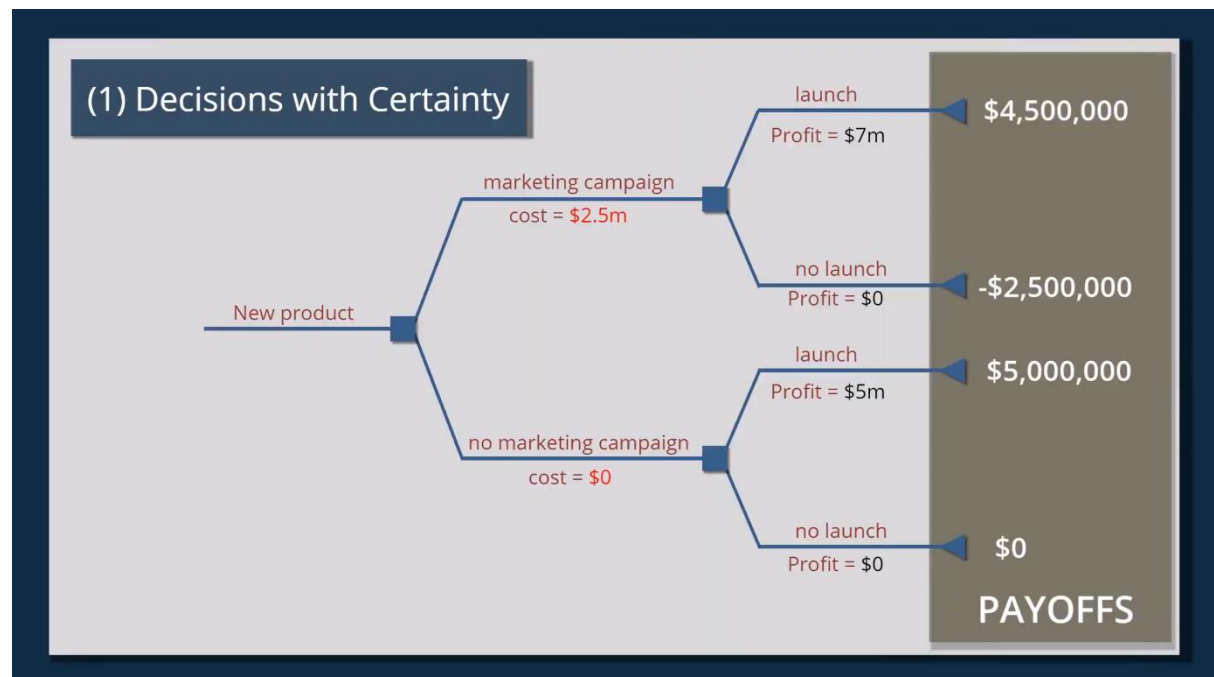
M4L21. Module Summary

Slide #1



We discussed five topics in this module.

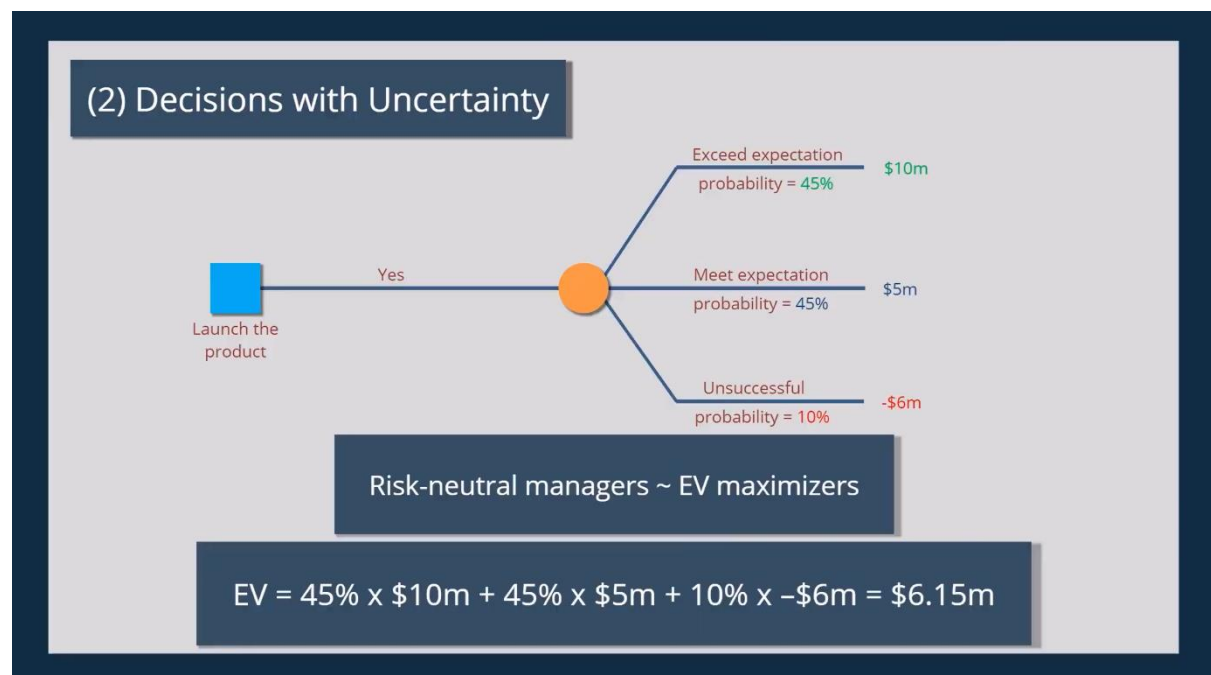
Slide #2



Decisions with certainty.

We learned how to build decision trees to visualize decisions and payoffs.

Slide #3

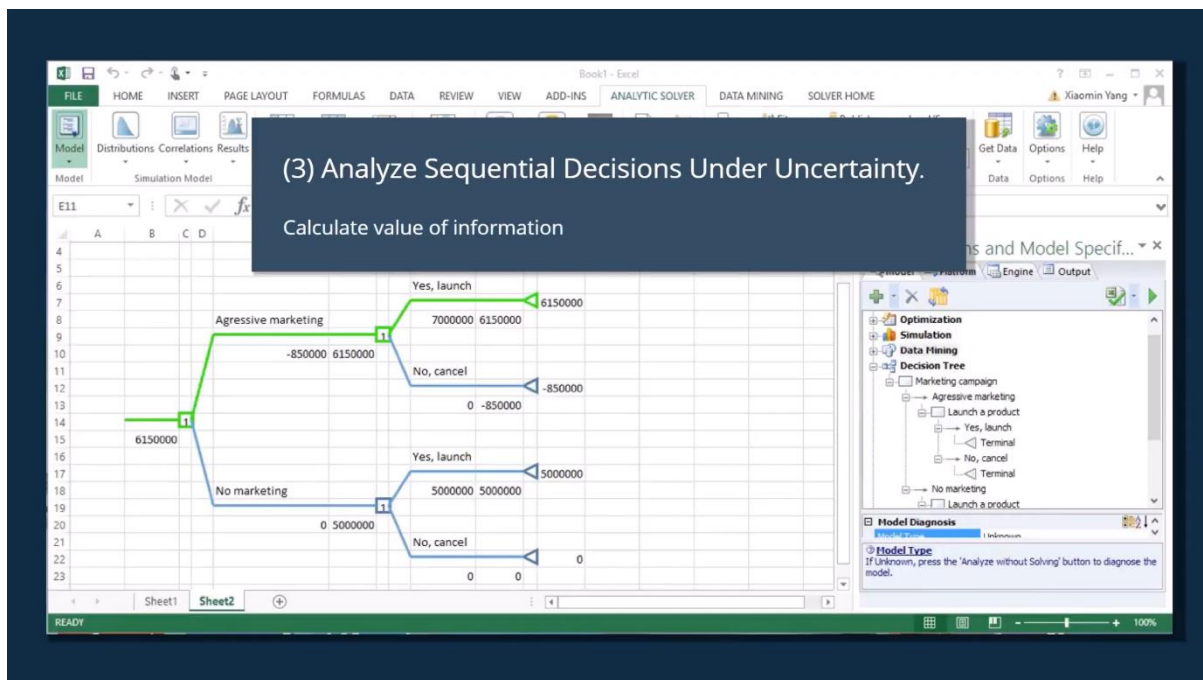


The second topic is decisions with uncertainty with probability and payoff.

We discussed how to use the chance node to describe those uncertainties and the expected value rule.

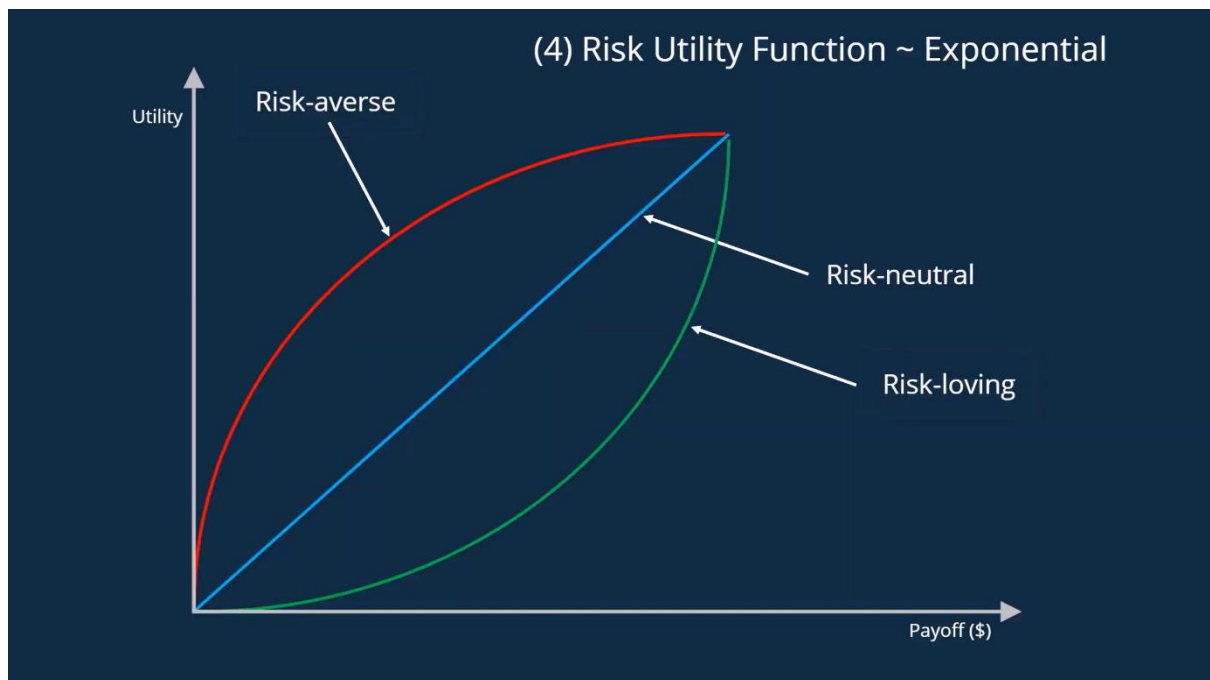
Risk-neutral managers are expected value maximizers when making decisions.

Slide #4



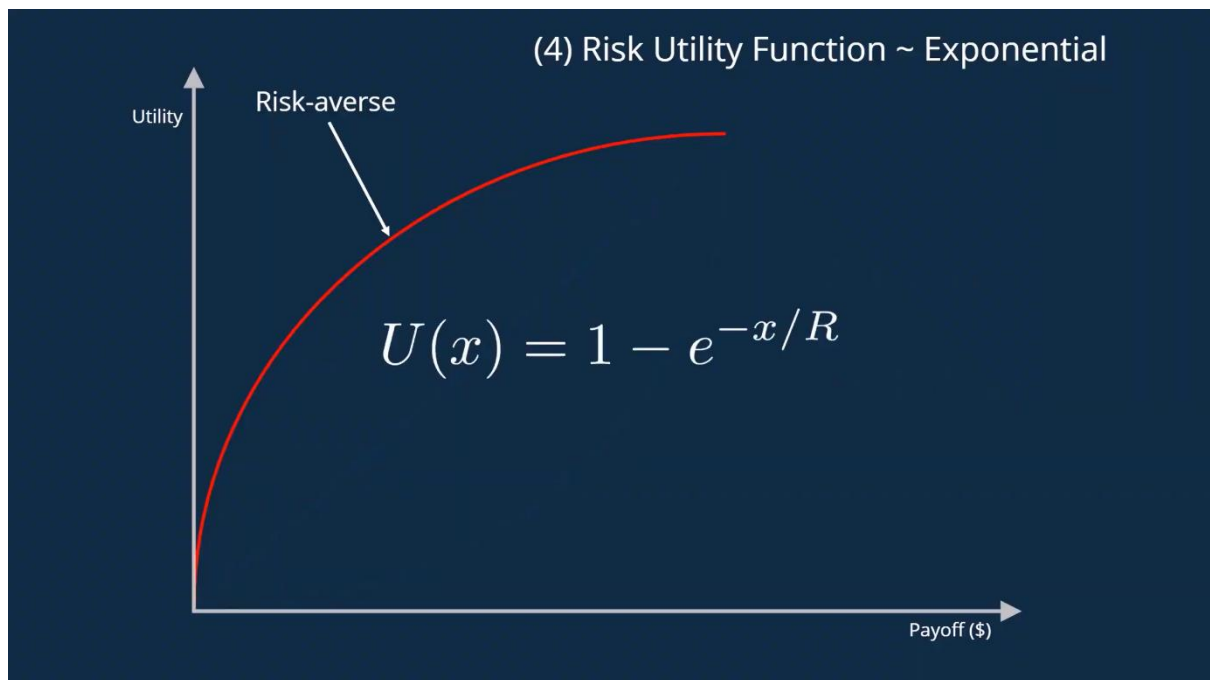
We also discussed how to use decision trees to analyze sequential decisions under uncertain business environments and illustrated how to use the decision tree to calculate the value of information.

Slide #5



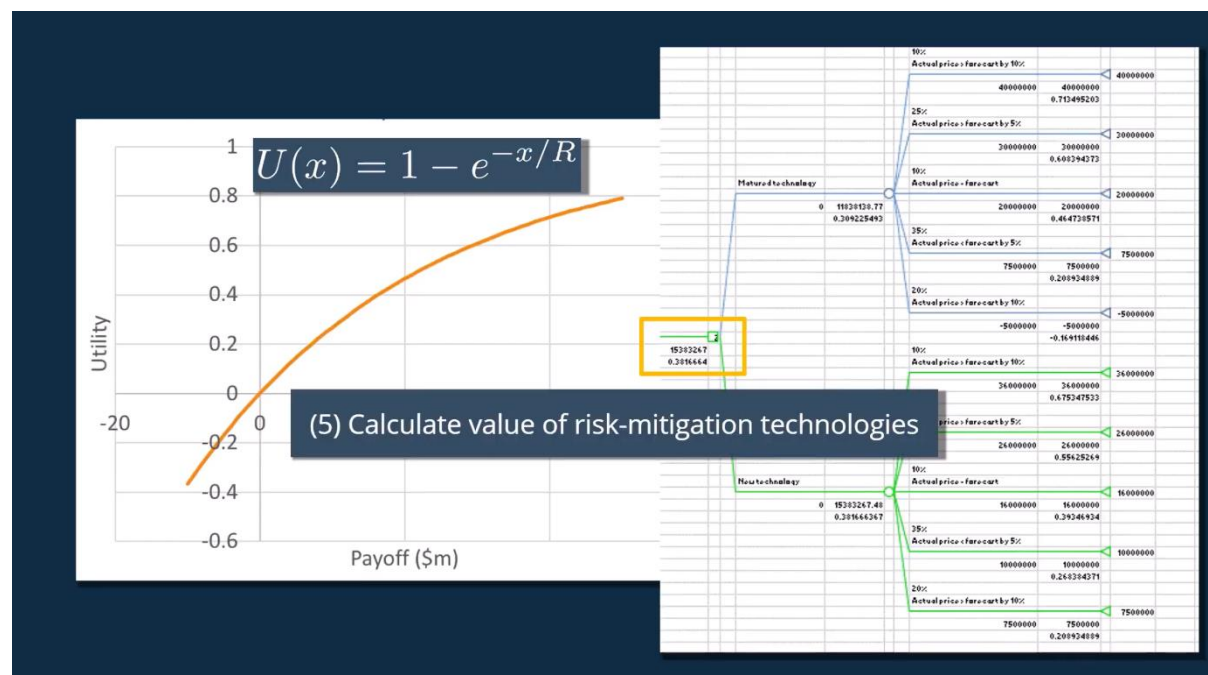
Many people are not risk-neutral and most of us are risk-averse or risk-loving.

Slide #6



Risk utility function, particularly exponential function for risk=averse managers, can model our risk tolerance behaviors.

Slide #7



The risk utility function can be incorporated into the decision tree model to help managers analyze decisions and choose a course of actions that maximizes their certainty equivalent value of risky decisions.

This method can also be used to calculate the value of risk-mitigation technologies.