

Unit 6 Discussion Example - First Response to a Classmate's Post

First response: Choose a classmate's post and review his or her decision analysis table. Add to this table by choosing a risk level for each state of nature (assign a probability value to each).

1. Calculate the EMV for each alternative.
2. Discuss which alternative is best based on the best (maximum) EMV.
3. Calculate the Expected Value with Perfect Information (EVwPI).
4. Calculate the EVPI.
5. Discuss how much money your classmate should pay for perfect information.

I will review "The New Green!" smoothie business. I will assume that the probability of an awesome nutritional demand is 50%, Moderate nutritional demand is 30% and Poor nutritional demand is 20%.

Profit	Awesome Nutritional Demand	Moderate Nutritional Demand	Poor Nutritional Demand		EMV	Minimum	Maximum
Probability	0.5	0.3	0.2				
3 New Carts	450	150	-150		240	-150	450
1 New Cart	150	50	-50		80	-50	150
0 New Carts	0	0	0		0	0	0
				Maximum	240	0	450
Expected Value of Perfect Information							
Column best	450	150	0		270	<- Expected value WITH perfect information	
					240	<- Best expected value	
					30	<- Expected value OF perfect information	

1. The EMV for each alternative is:

	EMV
3 New Carts	240
1 New Cart	80
0 New Carts	0

2. The maximum EMV would be to build 3 new carts with an expected monetary value of \$240 per day.

3. The Expected Value with Perfect Information (EVwPI) = \$270.

4. The Expected value OF perfect information (EVPI) = \$30.

5. The above calculations then tell me that I should only spend about \$30 (a day!) to get additional information about the nutritional market. So, I guess if I wanted to pay someone to survey my clientele, I should only pay \$30 a day or about \$210 a week to get market information!