Unit 3 Discussion - Peer Reply #1

Guidance Peer Reply #1:

Choose a classmate's thread and review their decision analysis table.

1. Add to their table by choosing a risk level for each state of nature (assign a probability value to each).
2. Calculate and state the EMV for each alternative.
3. Discuss which alternative is best based on the maximum EMV.
4. Calculate and state the Expected Value with Perfect Information (EVwPI).
5. Calculate and state the Expected Value of Perfect Information (EVPI).
6. Discuss the **most** money your classmate should pay for perfect information.

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These responses are meant to be a guide on how to address the peer reply #1 post and do not include all possible responses.

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%.

Expected Monetary Value (EMV) Decision Process				
Probabilities for State of Nature	0.5	0.3	0.2	1
3 New Carts	225	45	-30	**240**
1 New Cart	75	15	-10	80
0 New Carts	0	0	0	0
	0	0	0	0
				EMV
				240

EVwPI and EVPI				
Maximum for each state of nature	450	150	0	EVwPI
	225	45	0	270
				EVPI
				30

1. The EMV for each alternative is:

   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!