

BUS 735: Business Decision Making and Research

Name: _____

In-class Exercise

Directions: Work in groups of up to four people and answer the following questions. All papers will be collected, but only one member's paper will be randomly selected and graded and all members of the group will receive the same grade.

By signing below, you agree that the following work represents the efforts of everyone in the group, and you are willing to accept as your own grade for the group project the grade earned from this representation of your group's work. Every member must agree to these terms to earn a non-zero grade for this assignment.

_____ Signature Group Member 1	_____ Print Name	_____ Date
_____ Signature Group Member 2	_____ Print Name	_____ Date
_____ Signature Group Member 3	_____ Print Name	_____ Date
_____ Signature Group Member 4	_____ Print Name	_____ Date

1. Suppose Andrew, Jansen and Tyler Dahl discover they have a fourth long-lost brother David and therefore begin plans to open a fourth Dahl Automotive Dealership. They have offers from automakers three automakers, (1) Chrysler, whose most best selling cars are typically trucks and SUV's; (2) Cadillac, whose best selling cars are luxury full size cars; and Mitsubishi, whose best selling cars are small, compact cars. The average monthly profit for each type of dealership depends on macroeconomic conditions. Suppose the expected monthly profits for each type of dealership for given economic conditions are given in the table below. Not knowing the probabilities of each of these events, answer the questions that follow.

Decision	Economic Condition		
	Economic Recession	Slow Stable Growth	Economic Expansion
Chrysler	\$200,000	\$400,000	\$600,000
Cadillac	-\$100,000	\$200,000	\$800,000
Mitsubishi	\$250,000	\$350,000	\$450,000

(a) What is the best decision if using the maximax criterion?

(b) What is the best decision if using the maximin criterion?

(c) What is the best decision if using the maximax regret criterion?

(d) What is the best decision if using the equal likelihood criterion?

(e) What is the best decision if using Hurwicz criterion with a coefficient of optimism equal to 0.2?

2. Suppose past data of the local economy reveals the following historical probabilities for economic recession, slow economic growth, and economic expansion:

Economic Condition	Probability
Economic Recession	20%
Slow Stable Growth	55%
Economic Expansion	25%

- (a) Using these probabilities, choose the best decision for a car dealership that maximizes the expected value of profits.

- (b) Suppose the Federal Reserve Bank of Minneapolis recently released an economic forecast report suggesting the economy would maintain slow stable growth, and there is virtually no possibility for economic expansion. Suppose that the Fed accurately forecasts stable growth conditions 80% of the time, and accurately forecasts economic recessions 65% of the time. Using these probabilities (and disregarding the possibility of economic expansion), choose the best decision for a car Dealership that maximizes the expected value of profits.