

Decision trees Excel tutorial question

For the M997 example dealt with in the lecture notes construct an Excel sheet that works from the terminal node values to fully reflect the EMV's and decisions made at all points in the decision tree (as you saw me do in class, using the Excel functions MAX and IF).

Use your Excel sheet to construct a suitable graph showing how the EMV for the initial decision (whether to test market or not) varies with the probability (currently 0.6) of terminal node 10 (the terminal node associated with building a large plant and being without competition).

Decision trees Excel tutorial answer

The graph you should get is shown below.

The vertical axis is the EMV for the initial decision (whether to test market or not) and the horizontal axis is the probability (currently 0.6) of terminal node 10 (the terminal node associated with building a large plant and being without competition).

