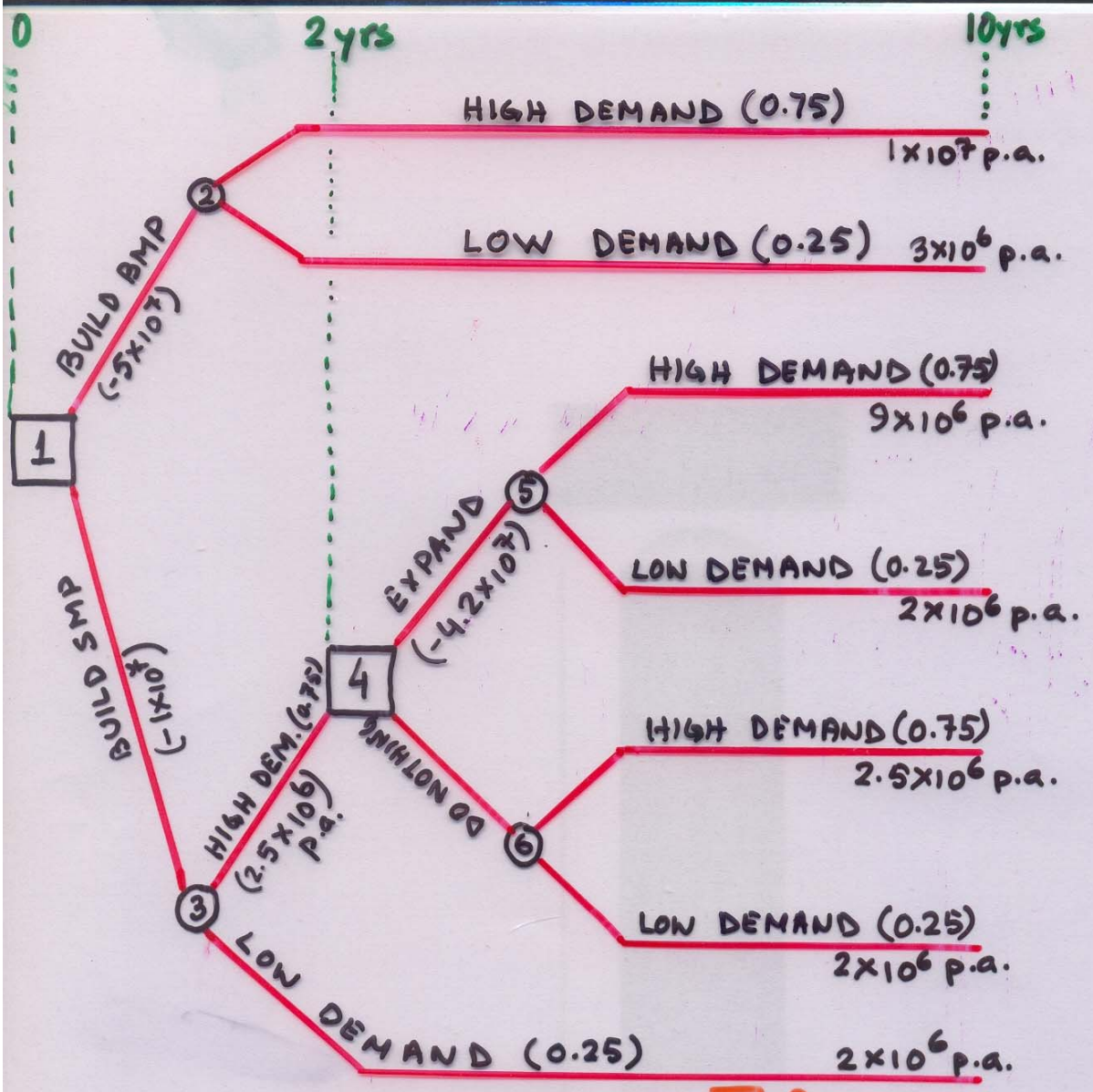

QUESTION
- WHAT TO DO AT [4] ?
- WHAT TO DO AT [1] ?

USING THE EXPECTED VALUE CRITERION ONE CAN SAY THAT AT [4] THE BEST ACTION IS THAT WHICH MAXIMIZES EXPECTED PROFIT.

$$E\{\text{profit} \mid \text{expand}\} = (9\times10^6\times0.75 + 2\times10^6\times0.25)\times8 - 4.2\times10^7 = 1.6\times10^7$$

$$E\{\text{profit} \mid \text{do noth.}\} = (2.5\times10^6\times0.75 + 2\times10^6\times.25)\times8 - 0 = 1.9\times10^7$$

AT [4] DO NOTHING.

NOW ONE CAN HAVE ONE LINK ENANATING FROM [4] WITH A VALUE OF 1.9×10^7 REPRESENTING EXPECTED PROFIT OVER 8 YRS.

$$E\{\text{profit} \mid \text{BMP}\} = (1\times10^7\times0.75 + 3\times10^6\times0.25)\times10 - 5\times10^7 = 3.25\times10^7$$

$$E\{\text{profit} \mid \text{SMP}\} = (1.9\times10^7 + 2.5\times10^6\times2)\times0.75 + 2\times10^6\times0.25\times10 - 1\times10^7 = 1.3\times10^7$$

AT [1] BUILD BMP

DT-VI