

HW#1 Due January 18, 2022

HW: From the table given in the previous example, if the decision maker can choose 2 out of 3 choices, fill in the following table

Choice	Value	Opportunity Cost
A + B	170	170
A + C	150	170
B + C	120	200

Show that the decision to maximize value will give the same decision as the one to minimize opportunity cost.

Example Choices and their opportunity costs.

Choice	Value	Opportunity Cost
A	100	70
B	70	100
C	50	100

As you can see in the table, it shows that Choice A+B has the highest value at 170 and also the lowest opportunity cost at 170 compared to other choices.  $\text{Value (170)} - \text{Opportunity cost (170)} = 0$  This means the investor will not lose the opportunity cost. Compared to other choices (A+C and B+C), These two choices give a negative relationship. Therefore, choice A+B is the best decision..