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Application Portfolio Assignment – Part 6

Moving right along!!

Part 6 – Decision Analysis Using Lattice you have already prepared.

Given the lattice of probabilities and states that you have developed, now do a decision analysis, on for your application, using the "Lattice –Decision Analysis" assignment as your model.

To make this practical, assume that you have only 1 option to exercise. Once this is done, there is no further change possible in the configuration of the system. {The reason for this restriction is that it ensures that there will be 'path independence' so that you can do the analysis according to conventional lines as used in financial analyses. As emphasized in class, this assumption is not realistic for many designs.)

To do this exercise, you will need to exercise your model of performance or cost, so as to calculate the value of being in each node of the lattice (at a specified level of the uncertainty, at the specified time.

The object of this exercise is to make sure that you understand the process using a lattice to value a single option.

You may use the "binomial lattice.xls" that I have made available on the web (see Schedule for lecture on Binomial Lattice).