

Advanced Operations Management

Fall 2006, Professor Eckstein

Homework 4

Due Thursday, October 5

Show your work for all problems.

1. Problem 1 on page 72 of the text.
2. Problem 5 on page 72 of the text.
3. Read the *Freemark Abbey Winery* case on pages 21-23 of the supplementary readings booklet. In the second-to-last paragraph, I interpret the text as stating that if the storm does not strike, there is 40% chance of getting \$3.50/bottle wholesale, a 40% chance of getting \$3.00/bottle wholesale, and a 20% chance of getting \$2.50/bottle wholesale.
 - (a) Assume that if the storm strikes but there is no *botrytis* mold, you will sell the wine for \$2.00/bottle wholesale. From an expected monetary value standpoint, should you harvest before the storm or not? Show your work.
 - (b) Should Freemark Abbey apply the expected value criterion to this decision, should they be risk averse, or should they be risk seeking? Answer in a brief paragraph supporting your conclusion.