Tips on the Memo

Two things to keep in mind:

1. There are three sites but decisions about them are *not independent*
   => The solution should be based on a *single decision tree*

2. The decision involves both *uncertainty* and *long periods of time*
   => Handle by using a decision tree with *cash flows as payoffs*
   => Results will be expected NPVs

Example problem:

r = 5%

Policy A:

Cost $2M in 0

Benefit $10 in year 5

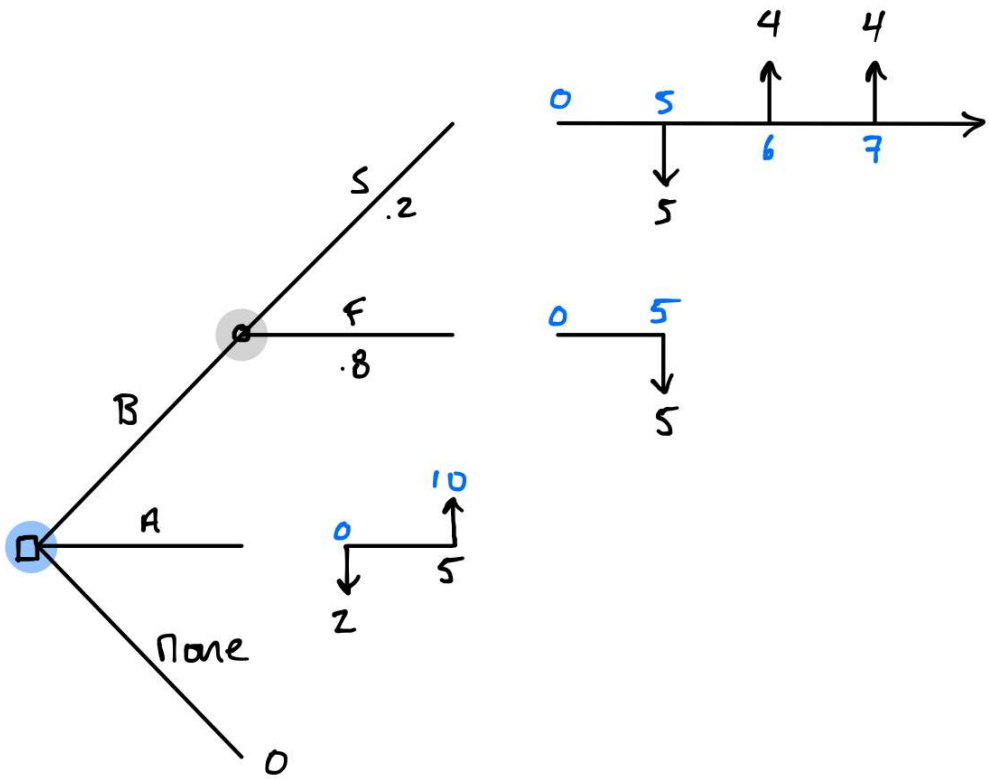
Policy B:

Cost $5M in year 5

Benefit Uncertain

State	Probability	Benefits
Succeeds (S)	20%	$4M/year forever starting in year 6
Fails (F)	80%	0

Diagram: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