**\*Information in red is incorrect answers that I submitted.**

**Given:**

The investor plans to invest in only one of three alternatives: a high-risk stock, a low-risk stock, or a savings account that pays a sure $500.

To invest in either stock, the investor must pay a brokerage fee of $200. If the market goes up, the value of the high-risk stock will increase by $1,700, and the value of the low-risk stock will increase by $1,200. If the market stays at the same level, the value will increase by $300 for the high-risk stock, and the value will increase by $400 for the low-risk stock. If the market goes down, the value of the high-risk stock will decrease by $800, and the value of the low risk stock will increase by $100. All of these stock payoffs must be adjusted to cover the $200 brokerage fee.

There is a 0.5 probability that the market will go up, a 0.3 probability that it will stay at the same level, and a 0.2 probability that it will go down.

**Task**

1. Calculate the expected value of each of the three investment alternatives. Explain how you reach each of these values.

MY Answer:

Market Market Market

Same Up Down

High Risk $300 $1700 $-800

Low Risk $400 $1200 $100

Savings Acct $500 $500 $500

Probability 0.3 0.5 0.2

EV() = 0.3(300) + 0.5(1700) + 0.2(-800) = 90 + 850 + -160 = $780

EV() = 0.3(400) + 0.5(1200) +0.2(100) = 120 + 600 + 20 = $740

EV() = 0.3(500) + 0.5(500) + 0.2(500) = 150 + 250 + 100 = $500

**\*\*Instructors says, the expected value for the savings account is correct. Review the task directions to make sure to apply the broker fee for the stocks.**

B. Calculate the expected value of perfect information. Explain how you reached this value.

My answer:

0.3(-800) + 0.5(1200) + 0.2(500) = $460

**\*\*Instructor says review the available resources to help understand how to calculate the EVPI. Provide the explanation once the EVPI has been calculated.**