A new product has the following profit projections and associated probabilities:

**Profit                       Probability**
$150,000                                     0.10
$100,000 0.25

$ 50,000 0.20

$0 0.15

-$ 50,000 0.20

-$100,000 0.10

a. Use the expected value approach to decide whether to market the new product.

b. Because of the high dollar values involved, especially the possibility of a $100,000 loss, the marketing vice president has expressed some concern about the use of the expected value approach. As a consequence, if a utility analysis is performed, what is the appropriate lottery?

c. Assume that the following indifference probabilities are assigned. Do the utilities reflect the behaviour of a risk taker or a risk avoider?

**Profit                       Indifference Probability (*p*)**

$100,000 0.95

$ 50,000 0.70

$0 0.50

-$ 50,000 0.25

d. Use expected utility to make a recommended decision.

e. Should the decision maker feel comfortable with the final decision recommended by the analysis?

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