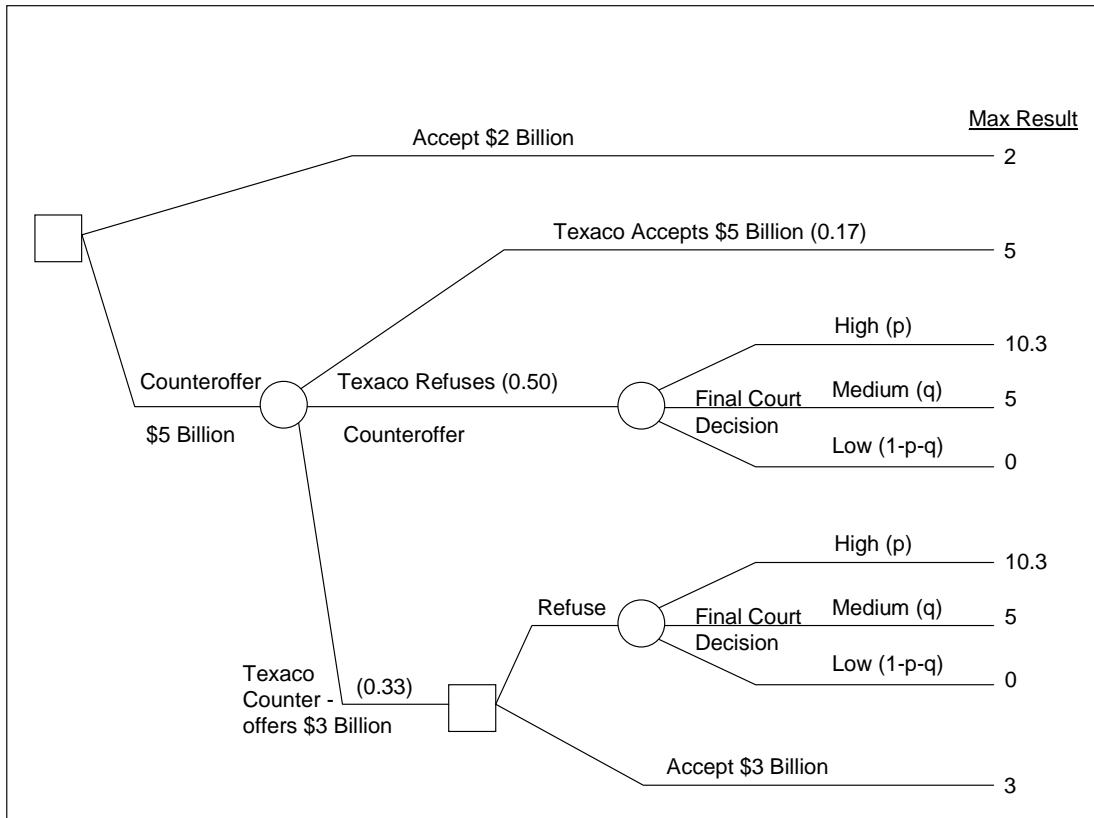


## EXTRA PROBLEM 7: SENSITIVITY ANALYSIS (Problem 5.12 in the Book)

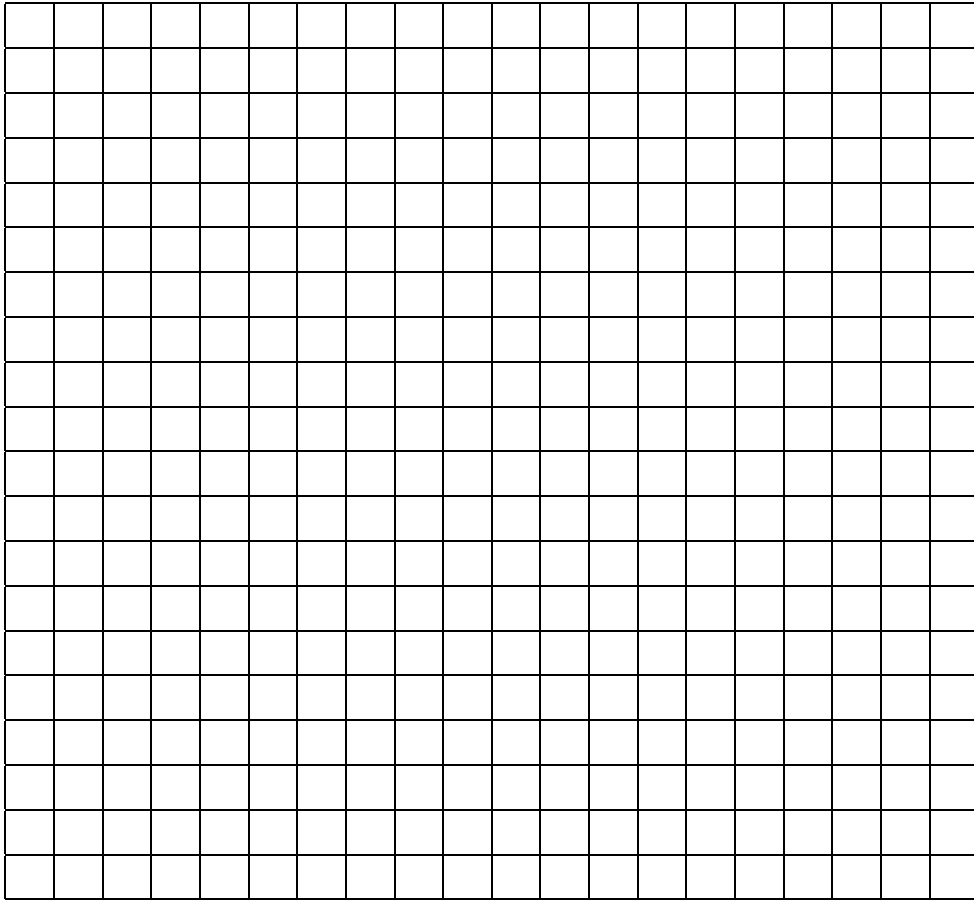
Reconsider Hugh Liedtke's Decision as diagrammed below



Note that three strategies are possible: (1) Accept \$2 billion, (2) Counteroffer \$5 Billion and then accept \$3 Billion if Texaco counteroffers, and (3) Counteroffer \$5 Billion and then refuse \$3 Billion if Texaco counteroffers.

A. Create a two-way sensitivity graph that shows optimal strategies for Liedtke for all possible values of  $p$  and  $q$





B. If Liedtke thinks that  $p$  must be at least 0.15 and  $q$  must be more than 0.35 can he make the decision without further probability assessment.