

Decision Making Under Uncertainty

In a situation of uncertainty, people have no idea about the reliability of data. They are very unsure about whether or not a situation may change.

For eg.:-

An organization that decides to start a business or expand its operation in an unknown country, they have little idea about the political, economic or cultural conditions and even unknown about the Law but they want to start their operation in uncertain situation without knowing about the outcome.

SUNDAY 8

NOTES						
MARCH 2009						
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The political situation might be so unfavourable that even an expert cannot predict a possible change in government.

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MONDAY

Important approaches to decision making under uncertainty:

i) RISK analysis, ii) Decision trees.

- 10 All intelligent Managers and decision makers dealing with uncertainty
- 11 like to know the size and nature of the RISK they are taking in choosing
- 12 a course of action. New techniques have been developed that a more precise view of risk and probabilities involved in various courses that might be undertaken.

for e.g. →

when a new product is launched, the managers must decide whether to install expensive equipment permanently to produce at the lowest possible cost or to install cheaper temporary equipment that will ~~involve~~ involve a higher manufacturing cost but lower capital investment and will result in low loss if the product is not sold as it was estimated in its simplest form.

They might install expensive equipment to produce more at the lowest possible cost in the long run. They ~~do~~ not know whether they will get success or not but the decision taken or made is under uncertainty.

FEBRUARY							200
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