MAT 211
Extra credit

Expected value calculation used for Decision making

You are in charge for managing an outdoor concert. It is estimated that the net income will be $100,000 if the weather is nice and only $10,000 if it is raining. An insurance company agrees to insure the concert for $100,000 for a premium of $20,000. The weather forecast reports 24% chance for rain.

(a) Should you buy the insurance?

(b) If you were the boss of the insurance agent would you fire the person who offered that deal?

Hint: Use expected value calculations for the different scenarios and perspectives to make your decision.