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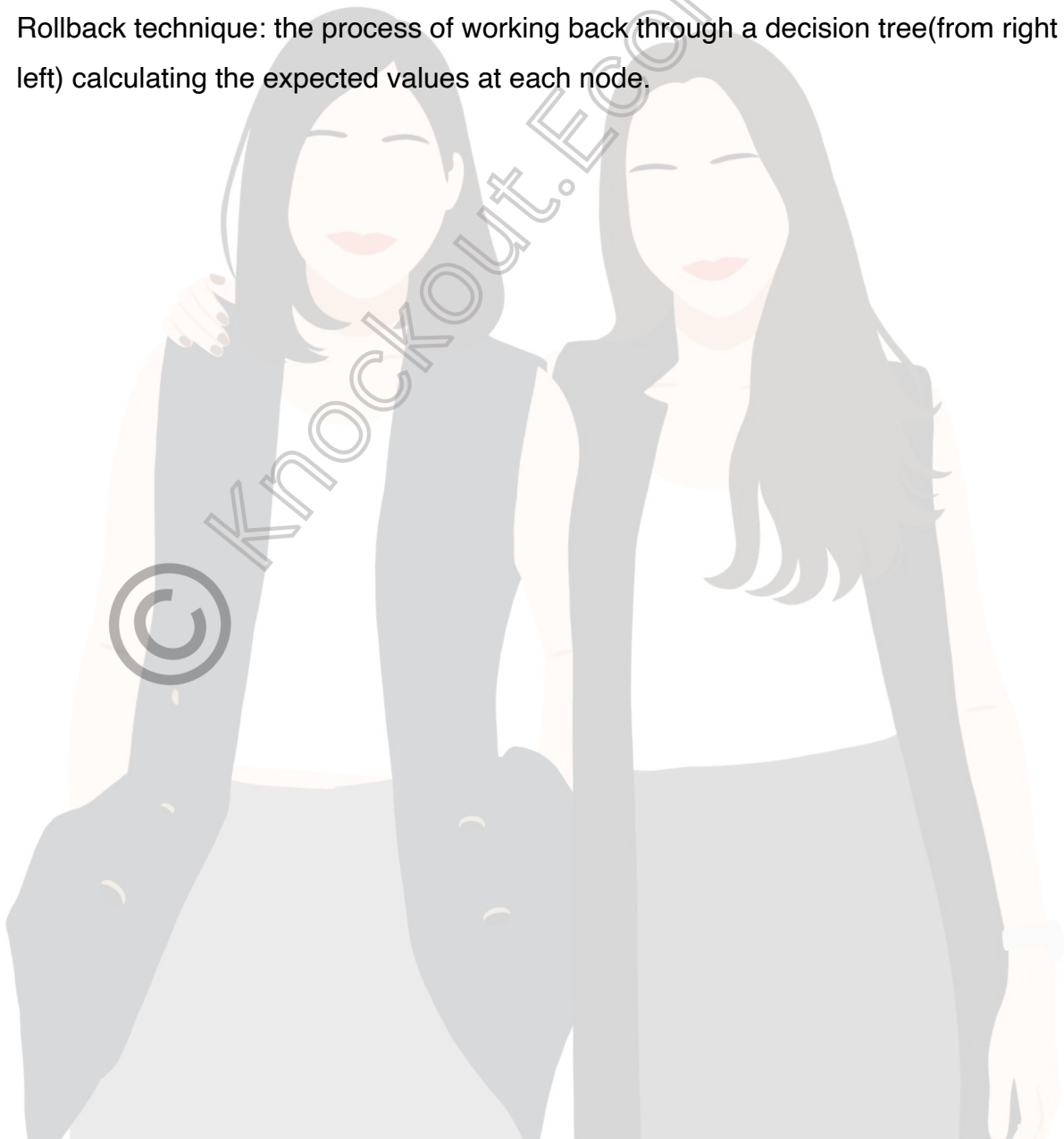Private class, Small Course, Online course :@Knockout.economics

Chapter 11 Decision trees

Key terms

1. Back data: data obtained from a previous time period.

2. Chance node: a point on a decision tree diagram(represented by a circle) where a number of outcomes are possible.

3. Decision tree: a technique which shows all possible outcomes of a decision. The name comes from the similarity of the diagrams to the branches of trees.

4. Expected value: the numerical value of an outcome multiplied by the probability of that outcome happening

5. Probability: the chances of an event happening.

6. Rollback technique: the process of working back through a decision tree(from right to left) calculating the expected values at each node.

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1. Decision trees; a technique which shows all possible outcomes of a decision.

Decision trees combines 1. decision points

2. outcome

3. probability or chance

Advantages of decision trees

1. It shows possible courses of action not previously considered.

2. It places numerical values on decision. This tends to improve results.

3. It allows management to take account of the risk involved in decision

4. People may get better ideas.

Limitation of decision trees

1. Probability is estimated and it may be inaccurate.

2. People's opinion cannot always be shown by numerical value.

3. Decision makers may manipulate data to reach the decision they want.