DEPARTMENT OF STATISTICS AND DEMOGRAPHY

MAIN EXAMINATION, 2014/15

COURSE TITLE: OPERATIONS RESEARCH II

COURSE CODE: ST 408

TIME ALLOWED: THREE (3) HOURS

INSTRUCTION: ANSWER A TOTAL OF FOUR QUESTIONS
                      SECTION A: ANSWER BOTH QUESTIONS
                      SECTION B: ANY TWO QUESTIONS
                      ALL QUESTIONS CARRY EQUAL MARKS (25 MARKS)

SPECIAL REQUIREMENTS: SCIENTIFIC CALCULATORS AND STATISTICAL TABLES

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Question 1

Supreme Development Corporation (SDC) purchased land to be the site for a new luxury double storey complex. The location provides a spectacular view of the surrounding countryside, including mountains and rivers. SDC plans to price the individual units between E300, 000 and E1, 400, 000. PDC commissioned preliminary architectural drawings for three different projects; one with 30 units, one with 60 units and one with 90 units. The financial success of the project depends on the size of the complex and the chance event concerning the demand of the units. The statement of the decision problem is to select the size of the new complex that will lead to the largest profit, given the uncertainty of the demand for the units. The corresponding payoffs can be summarised as follows:

Decision Alternative	State of Nature	
	Strong demand (s_1)	Weak demand (s_2)
Small complex (d_1)	8	7
Medium complex (d_2)	14	5
Large complex (d_3)	20	-9

The probability of strong demand = 0.8 and the probability of weak demand=0.2

The management of SDC is considering a six-month market research study designed to learn more about the potential market's acceptance of the SDC project. Management anticipates that the research study will provide the following two results:
  (1) Favourable report: A significant number of the individuals who were contacted expressed interest in purchasing a SDC unit.
  (2) Unfavourable report: Very few of the individuals contacted expressed interest in purchasing a SDC unit.
If the market study is conducted, then
P (Favourable report) = 0.77 and P (Unfavourable report) = 0.23

If the market report is favourable, then
P (strong demand given favourable report) = 0.94
P (weak demand given favourable report) = 0.06

If the market report is unfavourable, then
P (strong demand given unfavourable report) = 0.35
P (weak demand given unfavourable report) = 0.65

  (a) On the basis of the above information, use the tree diagram to advise SDC on the best strategy
(20 marks)
  (b) Based on your analysis, provide a corresponding risk profile for the optimal decision strategy.
(5 marks)

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Question 2

(a) The following information is available on a particular item:
Annual usage = 12, 000 units; Ordering costs = $60 per order; item unit cost = $10; carrying cost is 10% of unit cost of the item and lead time = 10 days. Assuming that there are 300 working days a year; Determine:

(i)The economic order quantity and number of orders per year?   **(10 marks)**

(ii) In the past two years, the usage rate has gone as high as 70 units per day. For a reordering system based on the inventory level, what should be the safety stock? What should be the reorder level at this safety stock?   **(5 marks)**

(b) Trucks arrive at the loading dock of a wholesale grocery at the rate of 1.2 per hour. A single crew consisting of two workers can load a truck in about 30 minutes. Crew members receive $50 per hour in wages and fringe benefits, and trucks drivers reflect an hourly cost of $60. The manager is thinking of adding another member to the crew. The service rate would then be 2.4 trucks per hour. Assume rates are Poisson.
(i) Would the third crew member be economical?
  (ii) Would a fourth member be justifiable if the resulting service capacity were 2.6 trucks per hour?
                    (10 marks)

SECTION B

Question 3

The following table gives the activities and other relevant information in a construction project.

Activity	Normal time (Days)	Crash time (Days)	Normal cost (E)	Crash cost (E)
1-2	20	17	600	720
1-3	25	25	200	200
2-3	10	8	300	440
2-4	12	6	400	700
3-4	5	2	300	420
4-5	10	5	300	600
4-6	5	3	600	900
5-7	10	5	500	800
6-7	8	3	400	700

(a) Draw the activity network of the project;   **(8 marks)**
(b) Find the earliest, latest times and slack for each activity;   **(12 marks)**
(c) Using the above information, crash the activities step-by-step until all paths are critical.

(5 marks)

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Question 4

(a) City Cab Company identified 10 primary pickup and drop locations for cab riders in New York City. In an effort to minimise travel time and improve customer service and the utilization of the company's fleet of cabs, management would like the cab drivers to take the shortest route between locations whenever possible. Using the following network of roads and streets, what is the route a driver beginning at location 1 should take to reach location 10? The travel times in minutes are shown on the arcs of the network. Note that there are two one-way streets with the direction shown by the arrows. **(10 marks)**
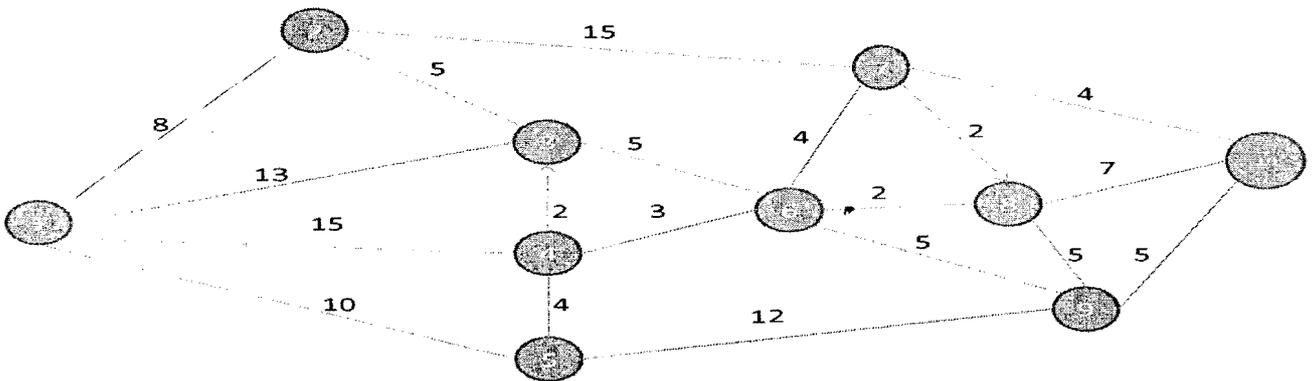
(b) The road system around the hotel complex from Node 1 to Node 11 is shown in the network below. The numbers by the nodes represent the traffic flow in hundreds of cars per hour. What is the maximum flow of cars from Node 1 to Node 11. **(15 marks)**

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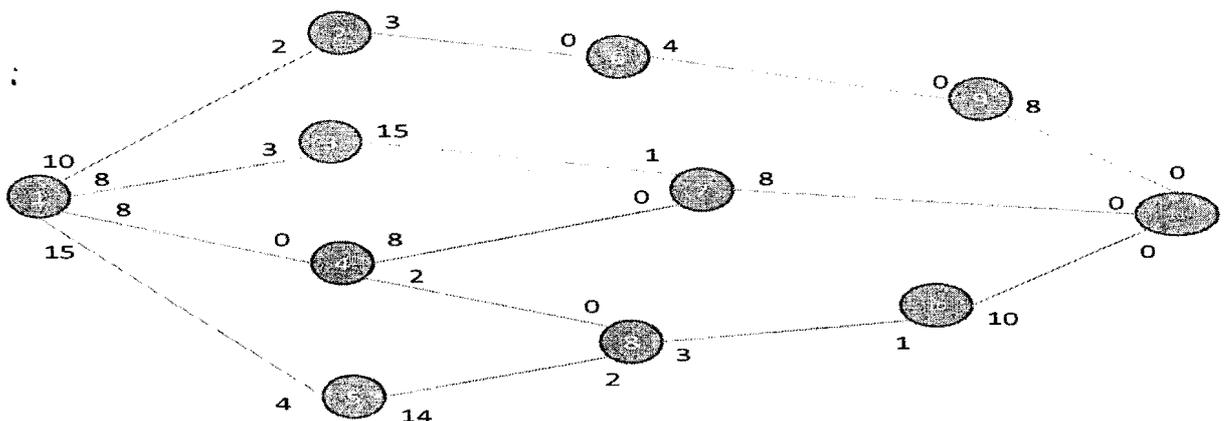
Question 5

A wholesale manager sells packets of ginger biscuits at the following prices:

Quantity	Unit Price
Less than 1000 packets	E5.00
1 000 – 3 999	E4.95
4 000 – 5 999	E4.90
6 000 or more	E4.85

Ordering costs are E50, annual holding cost is 40 percent of the purchase price and monthly usage is 6 000 packets. Determine an order quantity that will minimize total cost and determine the minimum total cost. **(25 marks)**

END OF EXAM!!

Table A-2 — The cdf of the Z Distribution (the Z Table)

Number in the table represents $P(z \leq z)$

z	0.00	0.01	0.02	0.03	0.04	0.05	0.06	0.07	0.08	0.09
-3.6	.0002	.0002	.0001	.0001	.0001	.0001	.0001	.0001	.0001	.0001
-3.5	.0002	.0002	.0002	.0002	.0002	.0002	.0002	.0002	.0002	.0002
-3.4	.0003	.0003	.0003	.0003	.0003	.0003	.0003	.0003	.0003	.0002
-3.3	.0005	.0005	.0005	.0004	.0004	.0004	.0004	.0004	.0004	.0003
-3.2	.0007	.0007	.0006	.0006	.0006	.0006	.0006	.0005	.0005	.0005
-3.1	.0010	.0009	.0009	.0009	.0008	.0008	.0008	.0008	.0007	.0007
-3.0	.0013	.0013	.0013	.0012	.0012	.0011	.0011	.0011	.0010	.0010
-2.9	.0019	.0018	.0018	.0017	.0016	.0016	.0015	.0015	.0014	.0014
-2.8	.0026	.0025	.0024	.0023	.0023	.0022	.0021	.0021	.0020	.0019
-2.7	.0035	.0034	.0033	.0032	.0031	.0030	.0029	.0028	.0027	.0026
-2.6	.0047	.0045	.0044	.0043	.0041	.0040	.0039	.0038	.0037	.0036
-2.5	.0062	.0060	.0059	.0057	.0055	.0054	.0052	.0051	.0049	.0048
-2.4	.0082	.0080	.0078	.0075	.0073	.0071	.0069	.0068	.0066	.0064
-2.3	.0107	.0104	.0102	.0099	.0096	.0094	.0091	.0089	.0087	.0084
-2.2	.0139	.0136	.0132	.0129	.0125	.0122	.0119	.0116	.0113	.0110
-2.1	.0179	.0174	.0170	.0166	.0162	.0158	.0154	.0150	.0146	.0143
-2.0	.0228	.0222	.0217	.0212	.0207	.0202	.0197	.0192	.0188	.0183
-1.9	.0287	.0281	.0274	.0268	.0262	.0256	.0250	.0244	.0239	.0233
-1.8	.0359	.0351	.0344	.0336	.0329	.0322	.0314	.0307	.0301	.0294
-1.7	.0446	.0436	.0427	.0418	.0409	.0401	.0392	.0384	.0375	.0367
-1.6	.0548	.0537	.0526	.0516	.0505	.0495	.0485	.0475	.0465	.0455
-1.5	.0668	.0655	.0643	.0630	.0618	.0606	.0594	.0582	.0571	.0559
-1.4	.0808	.0793	.0778	.0764	.0749	.0735	.0721	.0708	.0694	.0681
-1.3	.0968	.0951	.0934	.0918	.0901	.0885	.0869	.0853	.0838	.0823
-1.2	.1151	.1131	.1112	.1093	.1075	.1056	.1038	.1020	.1003	.0985
-1.1	.1357	.1335	.1314	.1292	.1271	.1251	.1230	.1210	.1190	.1170
-1.0	.1587	.1562	.1539	.1515	.1492	.1469	.1446	.1423	.1401	.1379
-0.9	.1841	.1814	.1788	.1762	.1736	.1711	.1685	.1660	.1635	.1611
-0.8	.2119	.2090	.2061	.2033	.2005	.1977	.1949	.1922	.1894	.1867
-0.7	.2420	.2389	.2358	.2327	.2296	.2266	.2236	.2206	.2177	.2148
-0.6	.2743	.2709	.2676	.2643	.2611	.2578	.2546	.2514	.2483	.2451
-0.5	.3085	.3050	.3015	.2981	.2946	.2912	.2877	.2843	.2810	.2776
-0.4	.3446	.3409	.3372	.3336	.3300	.3264	.3228	.3192	.3156	.3121
-0.3	.3821	.3783	.3745	.3707	.3669	.3632	.3594	.3557	.3520	.3483
-0.2	.4207	.4168	.4129	.4090	.4052	.4013	.3974	.3936	.3897	.3859
-0.1	.4602	.4562	.4522	.4483	.4443	.4404	.4364	.4325	.4286	.4247
-0.0	.5000	.4960	.4920	.4880	.4840	.4801	.4761	.4721	.4681	.4641

Table A-2 (continued)

Number in the table represents $P(z \leq z)$

z	0.00	0.01	0.02	0.03	0.04	0.05	0.06	0.07	0.08	0.09
0.0	.5000	.5040	.5080	.5120	.5160	.5199	.5239	.5279	.5319	.5359
0.1	.5398	.5438	.5478	.5517	.5557	.5596	.5636	.5675	.5714	.5753
0.2	.5793	.5832	.5871	.5910	.5948	.5987	.6026	.6064	.6103	.6141
0.3	.6179	.6217	.6255	.6293	.6331	.6368	.6406	.6443	.6480	.6517
0.4	.6554	.6591	.6628	.6664	.6700	.6736	.6772	.6808	.6844	.6879
0.5	.6915	.6950	.6985	.7019	.7054	.7088	.7123	.7157	.7190	.7224
0.6	.7257	.7291	.7324	.7357	.7389	.7422	.7454	.7486	.7517	.7549
0.7	.7580	.7611	.7642	.7673	.7704	.7734	.7764	.7794	.7823	.7852
0.8	.7881	.7910	.7939	.7967	.7995	.8023	.8051	.8078	.8106	.8133
0.9	.8159	.8186	.8212	.8238	.8264	.8289	.8315	.8340	.8365	.8389
1.0	.8413	.8438	.8461	.8485	.8508	.8531	.8554	.8577	.8599	.8621
1.1	.8643	.8665	.8686	.8708	.8729	.8749	.8770	.8790	.8810	.8830
1.2	.8849	.8869	.8888	.8907	.8925	.8944	.8962	.8980	.8997	.9015
1.3	.9032	.9049	.9066	.9082	.9099	.9115	.9131	.9147	.9162	.9177
1.4	.9192	.9207	.9222	.9236	.9251	.9265	.9279	.9292	.9306	.9319
1.5	.9332	.9345	.9357	.9370	.9382	.9394	.9406	.9418	.9429	.9441
1.6	.9452	.9463	.9474	.9484	.9495	.9505	.9515	.9525	.9535	.9545
1.7	.9554	.9564	.9573	.9582	.9591	.9599	.9608	.9616	.9625	.9633
1.8	.9641	.9649	.9656	.9664	.9671	.9678	.9686	.9693	.9699	.9706
1.9	.9713	.9719	.9726	.9732	.9738	.9744	.9750	.9756	.9761	.9767
2.0	.9772	.9778	.9783	.9788	.9793	.9798	.9803	.9808	.9812	.9817
2.1	.9821	.9826	.9830	.9834	.9838	.9842	.9846	.9850	.9854	.9857
2.2	.9861	.9864	.9868	.9871	.9875	.9878	.9881	.9884	.9887	.9890
2.3	.9893	.9896	.9898	.9901	.9904	.9906	.9909	.9911	.9913	.9916
2.4	.9918	.9920	.9922	.9925	.9927	.9929	.9931	.9932	.9934	.9936
2.5	.9938	.9940	.9941	.9943	.9945	.9946	.9948	.9949	.9951	.9952
2.6	.9953	.9955	.9956	.9957	.9959	.9960	.9961	.9962	.9963	.9964
2.7	.9965	.9966	.9967	.9968	.9969	.9970	.9971	.9972	.9973	.9974
2.8	.9974	.9975	.9976	.9977	.9977	.9978	.9979	.9979	.9980	.9981
2.9	.9981	.9982	.9982	.9983	.9984	.9984	.9985	.9985	.9986	.9986
3.0	.9987	.9987	.9987	.9988	.9988	.9989	.9989	.9989	.9990	.9990
3.1	.9990	.9991	.9991	.9991	.9992	.9992	.9992	.9992	.9993	.9993
3.2	.9993	.9993	.9994	.9994	.9994	.9994	.9994	.9995	.9995	.9995
3.3	.9995	.9995	.9995	.9996	.9996	.9996	.9996	.9996	.9996	.9997
3.4	.9997	.9997	.9997	.9997	.9997	.9997	.9997	.9997	.9997	.9998
3.5	.9998	.9998	.9998	.9998	.9998	.9998	.9998	.9998	.9998	.9998
3.6	.9998	.9998	.9999	.9999	.9999	.9999	.9999	.9999	.9999	.9999