

Part 1

Basics of Financial Decisions

Chapter 1 Engineering Economic Decisions

There are no end-of-chapter questions in this introductory chapter. However, the following questions could be included in the instruction:

1. Ask students to review the contents of *The Wall Street Journal* for the past three months. Then have them identify and categorize the types of investment decisions that appeared in the *Journal* according to the types of strategic economic decisions discussed in Section 1.5.
2. Have students work in small groups to brainstorm ideas about how a common appliance, device, or tool could be improved. Have them identify the steps involved and the economic factors that need to be considered prior to making a decision to manufacture the redesigned product. A detailed design and actual cost estimates are not required. Some items that could be considered for this redesign exercise are: a shopping cart, telephone, can opener, screwdriver, and so on.
3. Many oil price forecasts in the early 2000s indicated that the price of oil in 2005 would be in excess of \$50 per barrel. What is the price today? Why are these prices so difficult to predict? Imagine what the consequences would be if you used these pessimistic estimates in your economic analysis. What would be some practical ways to handle project uncertainty?