# Contents

Preface, xix

### **CHAPTER 1**

### Introduction,

1

| 1.1 Problem Solving and Decision Making, 2           |
|--|
| 1.2 Quantitative Analysis and Decision Making, 4     |
| 1.3 Quantitative Analysis, 6                         |
| Model Development, 6                                 |
| Data Preparation, 9                                  |
| Model Solution, 10                                   |
| Report Generation, 11                                |
| A Note Regarding Implementation, 12                  |
| 1.4 Models of Cost, Revenue, and Profit, 12          |
| Cost and Volume Models, 12                           |
| Revenue and Volume Models, 13                        |
| Profit and Volume Models, 13                         |
| Break-even Analysis, 13                              |
| 1.5 Management Science in Practice, 15               |
| Management Science Techniques, 15                    |
| Methods Used Most Frequently, 16                     |
| Implications for the Use of Management Science, 17   |
| 1.6 A Microcomputer Software Package, 18             |
| Top Level Menu, 19                                   |
| Problem Selection Menu, 19                           |
| Data Input, 19                                       |
| Problem Disposition Menu, 20                         |
| Solution and Output Information, 20                  |
| Data Editing, 20                                     |
| Saving, Retrieving, and/or Deleting Problems, 20     |
| Further Advice About Data Input, 21                  |
| Summary, 21  |
| Glossary, 22   |
| Problems, 22   |
| Management Science in Practice Feature, 25           |
| Management Science in Practice: Mead Corporation, 20 |

| <b>CHAPTER 2</b> | Linear Programming: The Graphical Method, 28                                      |
|------------------|---|
|                  | 2.1 A Simple Maximization Problem, 29   |
|                  | 2.2 The Objective Function, 30  |
|                  | 2.3 The Constraints, 31   |
|                  | 2.4 Mathematical Statement of the Par, Inc., Problem, 32                          |
|                  | 2.5 Graphical Solution, 33  |
|                  | A Note on Graphing Lines, 43  |
|                  | Summary of the Graphical Solution Procedure for Maximization Problems, 44         |
|                  | Slack Variables, 45   |
|                  | 2.6 Extreme Points and the Optimal Solution, 47                                   |
|                  | 2.7 A Simple Minimization Problem, 49   |
|                  | Summary of the Graphical Solution Procedure for Minimization Problems, 51         |
|                  | Surplus Variables, 52   |
|                  | 2.8 Special Cases, 54   |
|                  | Alternative Optimal Solutions, 54   |
| /                | Infeasibility, 54   |
|                  | Unboundedness, 57   |
|                  | 2.9 Introduction to Sensitivity Analysis, 58                                      |
|                  | 2.10 Graphical Sensitivity Analysis, 60<br>Objective Eurotion Coofficients 60     |
|                  | Dight Hand Sides 65   |
|                  | Summary 67  |
|                  | Glossary 67   |
|                  | Problems 68   |
|                  | Case Problem: Advertising Strategy, 87  |
|                  |   |
|                  |   |
| CHAPTER 3        | Linear Programming: Formulation Computer Solution and                             |
|                  | Interpretation 83   |
|                  | interpretation, 65  |
|                  | 3.1 Computer Solution of Linear Programs, 83                                      |
|                  | Interpretation of Computer Output, 85   |
|                  | Simultaneous Changes, 89  |
|                  | Interpretation of Computer Output—A Second Example, 90                            |
|                  | Cautionary Note on the Interpretation of Dual Prices, 92                          |
|                  | 3.2 More Than Two Decision Variables, 94  |
|                  | The Diverges Forme D. Hanne 00  |
|                  | Formulation of the Divergese Former Distributer 00                                |
|                  | The Bluegrass Farms Problem, 99<br>Formulation of the Bluegrass Farms Problem, 99 |

Computer Solution and Interpretation for the Bluegrass Farms Problem, 101

10

#### 3.3 Modeling, 103

Guidelines for Model Formulation, 103
The Electronic Communications Problem, 104
Formulation of the Electronic Communications Problem, 105
Computer Solution and Interpretation for the Electronic Communications Problem, 106 Summary, 110 Glossary, 110 Problems, 111 Case Problem: Product Mix, 123 Case Problem: Truck Leasing Strategy, 124 Appendix: Solving Linear Programs with LINDO/PC, 125 Management Science in Practice: Eastman Kodak, 128

| CHAPTER 4                        | Linear Programming Applications, 130  |
|----------------------------------|---|
|                                  | <b>4.1 Marketing Applications, 130</b><br>Media Selection, 130<br>Marketing Research, 133   |
|                                  | <b>4.2 Financial Applications, 137</b><br>Portfolio Selection, 137  |
| and Duality, 240<br>Tableau, 240 | <ul> <li>Financial-Mix Strategy, 141</li> <li>4.3 Production Management Applications, 145 Production Scheduling, 145 Work Force Assignment, 153 </li> <li>4.4 Blending Problems, 156</li> </ul>   |
|                                  | <ul> <li>4.5 Data Envelopment Analysis, 162<br/>Evaluating the Performance of Hospitals, 163</li> <li>Summary, 167<br/>Problems, 167</li> <li>Case Problem: Environmental Protection, 183</li> <li>Case Problem: Investment Strategy, 185</li> <li>Case Problem: Textile Mill Scheduling, 186</li> <li>Management Science in Practice: Marathon Oil Company, 187</li> </ul> |
|                                  |   |

| CHAPTER 5 | Line | ar Programming: The Simplex Method,             | 188 |
|-----------|------|---|-----|
|           | 5.1  | An Algebraic Overview of the Simplex Method,    | 188 |
|           |      | Algebraic Properties of the Simplex Method, 189 |     |
|           |      | Determining a Basic Solution, 189               |     |
|           |      | Basic Feasible Solutions, 190                   |     |
|           | 5.2  | Tableau Form, 192                               |     |
|           | 5.3  | Setting Up the Initial Simplex Tableau, 193     |     |
|           | 5.4  | Improving the Solution, 194                     |     |
|           | 5.5  | Calculating the Next Tableau, 199               |     |
|           |      | Interpreting the Results of an Iteration, 201   |     |
|           |      | Moving Toward a Better Solution, 202            |     |
|           |      | Interpreting the Optimal Solution, 204          |     |
|           |      | Summary of the Simplex Method, 205              |     |
|           | 5.6  | Solution of a Sample Problem, 205               |     |

| 5.7  | Tableau Form: The General Case, 207          |     |  |  |  |
|------|--|-----|--|--|--|
|      | Greater-Than-or-Equal-to Constraints, 208    |     |  |  |  |
|      | Equality Constraints, 213                    |     |  |  |  |
|      | Eliminating Negative Right-Hand-Side Values, | 214 |  |  |  |
|      | Summary of the Steps to Create Tableau Form, | 215 |  |  |  |
| 5.8  | Solving a Minimization Problem, 216          |     |  |  |  |
| 5.9  | Special Cases, 219                           |     |  |  |  |
|      | Infeasibility, 219                           |     |  |  |  |
|      | Unboundedness, 222                           |     |  |  |  |
|      | Alternative Optimal Solutions, 224           |     |  |  |  |
|      | Degeneracy, 226                              |     |  |  |  |
| Sum  | mary, 227                                    |     |  |  |  |
| Glos | sary, 229                                    |     |  |  |  |
| Prob | olems, 230                                   |     |  |  |  |

Simplex-Based Sensitivity Analysis and Duality, 240 **CHAPTER 6** Sensitivity Analysis with the Simplex Tableau, 240 6.1 Objective Function Coefficients, 240 Right-Hand-Side Values, 245 Simultaneous Changes, 251 6.2 Duality, 252 Economic Interpretation of the Dual Variables, 255 Using the Dual to Identify the Primal Solution, 257 Finding the Dual of Any Primal Problem, 257 Computational Considerations, 259 260 Summary, Glossary, 260 Problems, 261 **Management Science in Practice: Performance Analysis** Corporation, 270

| CH | AP | TEI | 27 |
|----|----|-----|----|
|    |    |     |    |

# Transportation, Assignment, and Transshipment Problems, 272

7.1 The Transportation Problem: The Network Model and a Linear Programming Formulation, 272
 Problem Variations, 277
 A General Linear Programming Model of the Transportation Problem, 279

7.2 The Assignment Problem: The Network Model and a Linear Programming Formulation, 280

Problem Variations, 283

A General Linear Programming Model of the Assignment Problem, 284 Multiple Assignments, 285

| 7.3  | The Transshipment Problem: The Network Model and a Linear            |
|------|--|
|      | Programming Formulation, 285   |
|      | A General Linear Programming Model of the Transshipment Problem, 291 |
| 7.4  | A Production and Inventory Application, 292                          |
| 7.5  | The Transportation Simplex Method: A Special-Purpose Solution        |
|      | Procedure, 296   |
|      | Phase I: Finding an Initial Feasible Solution, 297                   |
|      | Phase II: Iterating to the Optimal Solution, 300                     |
|      | Summary of the Transportation Simplex Method, 310                    |
|      | Problem Variations, 311  |
| 7.6  | The Assignment Problem: A Special-Purpose Solution                   |
|      | Procedure, 315   |
|      | Finding the Minimum Number of Lines, 318                             |
|      | Problem Variations, 318  |
| Sum  | mary, 321  |
| Glos | sary, 322  |
| Prob | lems, 323  |
| Case | Problem: Assigning Umpire Crews, 338                                 |
| Case | Problem: Distribution System Design, 340                             |
| Man  | agement Science in Practice: Optimal Decision Systems, Inc., 343     |
|      | Darry 503 off wirvito A diagonal                                     |
|      |  |

#### **CHAPTER 8**

#### Integer Linear Programming, 345

| 8.1 | Types | of | Integer | Linear | Programming | Models, | 346 |
|-----|-------|----|---------|--------|-------------|---------|-----|
|-----|-------|----|---------|--------|-------------|---------|-----|

- 8.2 Graphical Solution, 346
- 8.3 Applications of Integer Linear Programming, 350
   Capital Budgeting, 350
   Multiple-Choice and Mutually Exclusive Constraints, 352
   *k* Out of *n* Alternatives Constraint, 353

Conditional and Corequisite Constraints, 353

A Cautionary Note on Sensitivity Analysis, 353

Distribution System Design, 354

- **8.4 Computer Solution, 356** A Bank Location Application, 357
- 8.5 Branch-and-Bound Solution, 361 Extension to Mixed-Integer Linear Programs, 367
  Summary, 368
  Glossary, 368

Problems, 369

Case Problem: Textbook Publishing, 378 Management Science in Practice: KETRON, 380

### **CHAPTER 9**

#### Network Models, 382

**9.1 The Shortest-Route Problem, 382** A Shortest-Route Algorithm, 383

| A Minimal Spanning Tree Algorithm, 391<br>9.3 The Maximal Flow Problem, 394<br>A Maximal Flow Algorithm, 395<br>Summary, 400<br>Glossary, 400<br>Problems, 401<br>Case Problem: Ambulance Routing, 408<br>Management Science in Practice: EDS, 410 | 9.2 The Minimal Spanning Tree Problem, 3 | 91 |
|--|--|----|
| <ul> <li>9.3 The Maximal Flow Problem, 394<br/>A Maximal Flow Algorithm, 395</li> <li>Summary, 400<br/>Glossary, 400<br/>Problems, 401</li> <li>Case Problem: Ambulance Routing, 408<br/>Management Science in Practice: EDS, 410</li> </ul>       | A Minimal Spanning Tree Algorithm, 391   |    |
| A Maximal Flow Algorithm, 395<br>Summary, 400<br>Glossary, 400<br>Problems, 401<br>Case Problem: Ambulance Routing, 408<br>Management Science in Practice: EDS, 410  | 9.3 The Maximal Flow Problem, 394        |    |
| Summary, 400<br>Glossary, 400<br>Problems, 401<br>Case Problem: Ambulance Routing, 408<br>Management Science in Practice: EDS, 410   | A Maximal Flow Algorithm, 395            |    |
| Glossary, 400<br>Problems, 401<br>Case Problem: Ambulance Routing, 408<br>Management Science in Practice: EDS, 410   | Summary, 400                             |    |
| Problems, 401<br>Case Problem: Ambulance Routing, 408<br>Management Science in Practice: EDS, 410  | Glossary, 400                            |    |
| Case Problem: Ambulance Routing, 408<br>Management Science in Practice: EDS, 410   | Problems, 401                            |    |
| Management Science in Practice: EDS, 410   | Case Problem: Ambulance Routing, 408     |    |
|  | Management Science in Practice: EDS, 410 |    |

| CHAPTER 10 | Project Scheduling: PERI/CPM, 412   |
|------------|---|
|            | <ul> <li>10.1 PERT/CPM Networks, 413</li> <li>10.2 Project Scheduling with PERT/CPM, 416<br/>The Critical Path, 417</li> <li>Contributions of PEPT/CPM 422</li> </ul> |
|            | Summary of the PERT/CPM Critical Path Procedure, 422  |
|            | 10.3 Project Scheduling with Uncertain Activity Times, 424  |
|            | The Daugherty Porta-Vac Project, 424  |
|            | Uncertain Activity Times, 425   |
|            | The Critical Path, 427  |
|            | Variability in the Project Completion Time, 428   |
|            | 10.4 Considering Time-Cost Trade-Offs, 432  |
|            | Crashing Activity Times, 433  |
|            | A Linear Programming Model for Crashing Decisions, 434  |
|            | 10.5 PERT/Cost, 437   |
|            | Planning and Scheduling Project Costs, 438  |
|            | Controlling Project Costs, 440  |
|            | Summary, 443  |
|            | Glossary, 444   |
|            | Problems, 445   |
|            | Case Problem: Warehouse Expansion, 459  |
|            | Management Science in Practice: Seasongood & Mayer, 401   |
|            |   |

#### **CHAPTER 11**

| Inventory   | Models.    | 463 |
|-------------|------------|-----|
| In vericery | TVICCICIO, | 100 |

11.1 Economic Order Quantity (EOQ) Model, 464 The How-Much-to-Order Decision, 468

The When-to-Order Decision, 469Sensitivity Analysis in the EOQ Model, 470The Manager's Use of the EOQ Model, 471How Has the EOQ Decision Model Helped?, 471A Summary of the EOQ Model Assumptions, 472

| 11.2  | Economic Production Lot Size Model. 473                        |
|-------|--|
|       | The Total Cost Model. 474                                      |
|       | Finding the Economic Production Lot Size. 475                  |
| 113   | An Inventory Model with Planned Shortages, 476                 |
| 11.5  | Quantity Discounts for the FOO Model. 480                      |
| 11.5  | A Single-Period Inventory Model with Probabilistic             |
| 11.5  | Demand. 482  |
|       | The Johnson Shoe Company Problem, 484                          |
|       | The Kremer Chemical Company Problem, 487                       |
| 11.6  | An Order-Ouantity, Reorder-Point Model with Probabilistic      |
|       | Demand, 489  |
|       | The How-Much-to-Order Decision, 490                            |
|       | The When-to-Order Decision, 491                                |
| 11.7  | A Periodic-Review Model with Probabilistic Demand, 492         |
|       | More Complex Periodic-Review Models, 495                       |
| 11.8  | Material Requirements Planning, 496                            |
|       | Dependent Demand and the MRP Concept, 496                      |
|       | Information System for MRP, 497                                |
|       | MRP Calculations, 499  |
| 11.9  | The Just-In-Time Approach to Inventory Management, 501         |
| Sumn  | nary, 503  |
| Gloss | ary, 503   |
| Probl | ems, 504   |
| Case  | Problem: A Make-or-Buy Analysis, 512                           |
| APPE  | NDIX 11.1 Development of the Optimal Order-Quantity $(Q^*)$    |
| For   | mula for the EOQ Model, 514                                    |
| APPE  | NDIX 11.2 Development of the Optimal Lot Size (Q*) Formula for |
| the   | Production Lot Size Model, 514                                 |

APPENDIX 11.3 Development of the Optimal Order-Quantity (Q\*) and Optimal Backorder (S\*) Formulas for the Planned Shortage Model, 515 Management Science in Practice: SupeRx, Inc., 517

## **CHAPTER 12**

#### Waiting Line Models, 519

- 12.1 The Structure of a Waiting Line System, 520 The Single-Channel Waiting Line, 520 The Process of Arrivals, 520 The Distribution of Service Times, 522 Queue Discipline, 522 Steady-State Operation, 524
- 12.2 The Single-Channel Waiting Line Model with Poisson Arrivals and Exponential Service Times, 524

| The Manager's Use of Waiting Line Models, 526                              |
|--|
| Improving the Waiting Line Operation, 526                                  |
| 12.3 The Multiple-Channel Waiting Line Model with Poisson Arrivals         |
| and Exponential Service Times, 527   |
| The Operating Characteristics, 528   |
| Operating Characteristics for the Burger Dome Problem, 529                 |
| 12.4 Some General Relationships for Waiting Line Models, 532               |
| 12.5 Economic Analysis of Waiting Lines, 533                               |
| 12.5 Other Waiting Line Models, 536  |
| 12.7 The Single-Channel Waiting Line Model with Poisson Arrivals           |
| and Arbitrary Service Times, 536   |
| Operating Characteristics for the $M/G/1$ Model, 537                       |
| Constant Service Times, 538  |
| 12.8 A Multiple-Channel Model with Poisson Arrivals, Arbitrary             |
| Service Times and No Waiting Line, 539                                     |
| The Operating Characteristics for the $M/G/1$ Model with Blocked Customers |
| Cleared, 539   |
| 12.9 Waiting Line Models with Finite Calling Populations, 541              |
| The Operating Characteristics for the $M/M/1$ Model with a Finite Calling  |
| Population, 542  |
| Summary, 543   |
| Glossary, 545  |
| Problems, 545  |
| Case Problem: Airline Reservations, 552                                    |
| Management Science in Practice: Goodyear Tire & Rubber                     |
| Company, 554   |
|  |
|  |

The Operating Characteristics, 524

Characteristics for The Burger Dome Problem, 525

# **CHAPTER 13**

# Computer Simulation, 556

# 13.1 County Beverage Drive-Thru, 557

Simulation of Customer Arrivals and Order Sizes, 558 Logic of the Simulation Model for County Beverage Drive-Thru, 561 Generating Pseudorandom Numbers, 565 Computer Program and Results, 566

13.2 County Beverage Drive-Thru: Improving the System Design, 569 System A, 570

System B, 570

**13.3 Modeling, Validation, and Statistical Considerations, 571** Selecting a Simulation Language, 572

Validation, 572

Start-Up Problems, 573

Statistical Considerations, 573

- 13.4 An Inventory Simulation Model, 574
- 13.5 Advantages and Disadvantages of Computer Simulation, 579

Summary, 580 Glossary, 580 Problems, 581 Case Problem: Machine Repair, 590 Management Science in Practice: The Upjohn Company, 591

| CHAPTER 14                                  | Decision Analysis, 593  |  |
|---|---|--|
|   | <b>14.1 Structuring the Decision Problem, 594</b><br>Payoff Tables, 594<br>Decision Trees, 595  |  |
|   | <ul> <li>14.2 Decision Making Without Probabilities, 596</li> <li>Optimistic Approach, 596</li> <li>Conservative Approach, 597</li> <li>Minimax Regret Approach, 598</li> </ul>                     |  |
|   | 14.3 Decision Making with Probabilities, 599  |  |
|   | 14.4 Sensitivity Analysis, 601  |  |
|   | 14.5 Expected Value of Perfect Information, 604   |  |
|   | 14.6 Decision Analysis with Sample Information, 606   |  |
|   | 14.7 Developing a Decision Strategy, 607  |  |
|   | Computing Branch Probabilities, 609<br>Computing Branch Probabilities: A Tabular Procedure, 611   |  |
|   | An Optimal Decision Strategy, 613   |  |
|   | 14.8 Expected Value of Sample Information, 615  |  |
|   | Efficiency of Sample Information, 615<br><b>14.9 Utility and Decision Making, 616</b><br>The Meaning of Utility, 617<br>Developing Utilities for Payoffs, 618<br>The Expected Utility Approach, 621 |  |
|   | Summary, 622  |  |
|   | Glossary, 623   |  |
|   | Problems, 624   |  |
|   | Case Problem: Property Purchase Strategy, 641   |  |
| CHX9 10 10 10 10 10 10 10 10 10 10 10 10 10 | Management Science in Practice: Ohio Edison Company, 643  |  |

## **CHAPTER 15**

Multicriteria Decision Problems, 646

- **15.1 Goal Programming: Formulation and Graphical Solution, 647** Developing the Constraints and the Goal Equations, 648 Developing an Objective Function with Preemptive Priorities, 649 The Graphical Solution Procedure, 650 The Goal Programming Model, 654
- **15.2 Goal Programming: Solving More Complex Problems, 655** The Suncoast Office Supplies Problem, 655 Formulating the Goal Equations, 656

Formulating the Objective Function, 657 Computer Solution, 659 15.3 The Analytic Hierarchy Process, 662 Developing the Hierarchy, 663 15.4 Establishing Priorities Using AHP, 664 Pairwise Comparisons, 664 The Pairwise Comparison Matrix, 665 Synthesis, 666 Procedure for Synthesizing Judgments, 666 Consistency, 667 Estimating the Consistency Ratio, 668 Other Pairwise Comparisons for the Car-Selection Problem, 669 15.5 Using AHP to Develop an Overall Priority Ranking, 671 15.6 Using Expert Choice to Implement AHP, 672 Summary, 676 Glossary, 676 Problems, 677 Case Problem: Production Scheduling, 684

| CHAPTER 16 Fored     | casting, 686   |
|----------------------|--|
| 16.1                 | The Components of a Time Series,687Trend Component,687Cyclical Component,688Seasonal Component,689Irregular Component,690  |
| 16.2<br>16.3<br>16.4 | Forecasting Using Smoothing Methods, 690<br>Moving Averages, 690<br>Weighted Moving Averages, 692<br>Exponential Smoothing, 693<br>Forecasting a Time Series Using Trend Projection, 697<br>Forecasting a Time Series with Trend and Seasonal<br>Components, 700   |
| 16.5<br>16.6         | Calculating the Seasonal Indexes, 702<br>Deseasonalizing the Time Series, 705<br>Using the Deseasonalized Time Series to Identify Trend, 706<br>Seasonal Adjustments, 708<br>Models Based on Monthly Data, 708<br>Cyclical Component, 709<br><b>Forecasting Using Regression Models, 709</b><br>Using Regression Analysis When Time Series Data Are Not Available, 709<br>Using Regression Analysis When Time Series Are Available, 714<br><b>Qualitative Approaches to Forecasting, 716</b> |

Summary, 717 Glossary, 717 Problems, 718 Case Problem: Forecasting Sales, 727 Management Science in Practice: The Cincinnati Gas & Electric Company, 729

| CHAPTER 17 | Markov Process, 731  |
|------------|--|
|            | <ul> <li>17.1 Market Share Analysis, 731</li> <li>17.2 Accounts Receivable Analysis, 741 <ul> <li>The Fundamental Matrix and Associated Calculations, 743</li> <li>Establishing the Allowance for Doubtful Accounts, 744</li> </ul> </li> <li>Summary, 746</li> <li>Glossary, 746</li> <li>Problems, 746</li> <li>Management Science in Practice: U.S. General Accounting Office, 750</li> </ul>   |
| CHAPTER 18 | Dynamic Programming, 752   |
|            | <ul> <li>18.1 A Shortest-Route Problem, 752</li> <li>18.2 Dynamic Programming Notation, 757</li> <li>18.3 The Knapsack Problem, 762</li> <li>18.4 A Production and Inventory Control Problem, 766</li> <li>Summary, 770</li> <li>Glossary, 771</li> <li>Problems, 771</li> <li>Management Science in Practice: The U.S. Environmental Protection<br/>Agency, 778</li> </ul>  |
| CHAPTER 19 | Calculus-Based Solution Procedures, 780  |
|            | <ul> <li>19.1 Models with One Decision Variable, 780</li> <li>19.2 Unconstrained Models with More Than One Decision<br/>Variable, 789</li> <li>19.3 Models with Equality Constraints: Lagrange Multipliers, 796</li> <li>19.4 Interpretation of the Lagrange Multiplier, 802</li> <li>19.5 Models Involving Inequality Constraints, 805</li> <li>Summary, 808</li> <li>Glossary, 809</li> <li>Problems, 809</li> <li>Management Science in Practice: U.S. Department of Agriculture Forest<br/>Service, 813</li> </ul> |

xviii Contents

#### Appendixes, A-1

A. Areas for the Standard Normal Distribution, A-2

B. Random Digits, A-3

C. Values of  $e^{-\lambda}$ , A-4

D. A Short Table of Derivatives, A-5

E. Matrix Notation and Operations, A-6

F. References and Bibliography, A-9

- G. Answers to Even-Numbered Problems, A-14
- H. Self-Test Solutions, A-25

Index, I-1