

How to invest \$1,000



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Analysis Jim's situation on deciding whether to stay put or move involves different factors. It entails various effects on his life, particularly in his financial account. Since his current job salary is represented by a constant variable, which is \$28, 000. The independent variables in this case are the probabilities of the chance of leading to a job that pays higher than his current salary and the chance of getting a lower paying job. Hence, the expected value of his salary if he decides to move represents the dependent variable. In Jim's case, the EMV if the probabilities are 50/50, which is \$28, 500, is higher than his current salary.

On the other hand, if his current job which is first viewed as a constant variable becomes independent because of the chances that his boss may increase or decrease his current salary upon knowing of his situation, then it may change. This change may be an increase or decrease. If it increases, it may exceed the amount of EMV.

However, if the probabilities are not 50/50, for instance 40/60 or 60/40, the EMV changes. Therefore to summarize the analysis, there are two variables which may affect Jim's decision to move. These include the probabilities of the chance of getting a higher paying job and the chance of leading to a lower paying job and the current salary (Jones, 1999).

Assumptions

Jim's decision theoretically depends on the amount of EMV compared to his current salary. Judging upon the changes in the variables which may take effect, both the options of staying in his current job and moving may be a good alternative.

If the expected value or EMV of the option of moving is greater than his current salary, then it would probably best for Jim to take the risk and move.

In the contrary, if the EMV of moving is less than his current salary, then the option of staying in his current job would be better. Still, his decision must involve a comprehensive analysis of the probabilities of getting a higher or a lower paying job. If the probability of getting a higher paying job is .46 and above, then the EMV would be higher than his current salary. But if it is lower than .46, the EMV would be less than his present income.

Still, the threshold value of .46 is thus considered as a dependent variable because his current salary may still change (Hanssen, 1998).

Recommendations

Perhaps the best step Jim should first take is to weigh wisely the probability of getting a higher paying job. If the EMV of the option of moving is relatively higher than his current income and he is willing to take the risks, then moving might be the best action he must take.

Rationally, if EMV is lower, less risk is involved since it would be clear that the probability of getting a lower paying job is higher than that of getting a higher salary.

In addition to that, Jim should consider significantly the effect of his situation to his current salary. If his boss gets disappointed, his current salary may decrease. Thus, the option of moving would have an edge over the choice of staying. On the other hand, if his boss views him as a loss for the company and decides to increase his current salary, then the threshold value of .46 would be higher. Hence, the probability of Jim's decision to stay would increase.

Hence, for Jim to decide wisely, he must take into consideration the two major independent factors in his situation: the probabilities of getting a higher paying job and a lower paying job and the probability that his current

salary may increase or not.

Reference List

Hanssen, P. (1998). Economics in modern context. New York: Stevensons.

Jones, T. (1999) Wise entrepreneur. Illinois: Tender Haus and Sons.