

# CONTENTS

## PREFACE xvii

## 1

### AN OVERVIEW OF MANAGEMENT SCIENCE 1

- 1.1 INTRODUCTION 1
- 1.2 THE NATURE OF MANAGEMENT SCIENCE 2
  - A Trial-and-Error Approach 3
  - The Management Science Approach 5
  - Deterministic Models versus Stochastic Models 8
- 1.3 THE EVOLUTION OF MANAGEMENT SCIENCE 9
- 1.4 THE STATUS OF MANAGEMENT SCIENCE TODAY 11
- 1.5 SOME MANAGEMENT SCIENCE “SUCCESS STORIES” 11
  - Tree-Stem Cutting at Weyerhaeuser 13
  - Manpower Planning at United Airlines 13
  - Cleaning Streets in New York City 14
  - Inventory Management at Pfizer 14
  - Designing the Emergency Medical Service System in Austin 14
  - Faster Service at Burger King 15
  - A Survey of Other Management Science Applications 16
- 1.6 SOME GUIDELINES FOR AVOIDING THE MISAPPLICATION OF MANAGEMENT SCIENCE 17
- 1.7 CONCLUDING REMARKS—THE ROLE OF THIS TEXT 19
- 1.8 CHAPTER CHECKLIST AND GLOSSARY 19
  - Checklist of Concepts and Techniques 19
  - Glossary 20
  - Exercises 20

---

## 2

### **LINEAR PROGRAMMING: CONCEPTS AND GRAPHICAL ILLUSTRATIONS 21**

- 2.1 INTRODUCTION 21
- 2.2 LINEAR EQUATIONS AND LINEAR INEQUALITIES 23
- 2.3 ORANGE MICROCOMPUTER CORPORATION'S PRODUCT MIX PROBLEM 28
- 2.4 FORMULATION OF OMC'S PRODUCT MIX PROBLEM AS AN LP 29
  - Definition of the Decision Variables 30
  - Writing the Objective as a Linear Function 30
  - Writing the Constraints as Linear Inequalities 31
  - Putting the Pieces Together 32
- 2.5 RESCALING OMC'S LP 33
- 2.6 SOLVING OMC'S LP USING THE GRAPHICAL METHOD 34
- 2.7 IMPLEMENTING THE OPTIMAL SOLUTION TO OMC'S LP 40
- 2.8 SLACK VARIABLES AND BINDING CONSTRAINTS 42
- 2.9 PETE MOSS'S BLENDING PROBLEM 45
  - Formulation of Pete Moss's Blending Problem as a Linear Program 47
  - Solving the Blending LP Graphically 48
- 2.10 SURPLUS VARIABLES AND BINDING CONSTRAINTS 52
- 2.11 THE RELATIONSHIP BETWEEN CORNER-POINT SOLUTIONS AND AN LP'S OPTIMAL SOLUTION 56
- 2.12 INFEASIBILITY AND UNBOUNDEDNESS 59
  - Infeasibility 59
  - Unboundedness 60
- 2.13 REDUNDANT CONSTRAINTS 62
- 2.14 A SUMMARY OF THE GRAPHICAL METHOD FOR SOLVING AN LP 63
- 2.15 CONCLUDING REMARKS: THE LIMITATIONS OF LINEAR PROGRAMMING 64
- 2.16 CHAPTER CHECKLIST AND GLOSSARY 66
  - Checklist of Concepts and Techniques 66
  - Glossary 67
  - Exercises 69

---

## 3

### **LINEAR PROGRAMMING: GRAPHICAL SENSITIVITY ANALYSIS AND INTERPRETING COMPUTER OUTPUT 75**

- 3.1 INTRODUCTION 75
- 3.2 SENSITIVITY ANALYSIS OF AN OBJECTIVE-FUNCTION COEFFICIENT 78
  - Sensitivity Analysis of the Objective-Function Coefficient of  $x_1$  78
  - Sensitivity Analysis of the Objective-Function Coefficient of  $x_2$  83
  - Applications of the Ranges of Optimality 84
  - A Summary 85
- 3.3 SENSITIVITY ANALYSIS OF THE RIGHT-HAND SIDE OF A BINDING CONSTRAINT 86
  - Sensitivity Analysis Assuming a Small Change in  $RHS_1$  87
  - Determining the Range of Validity's Upper Limit 91
  - Determining the Range of Validity's Lower Limit 93
  - Applications 94
- 3.4 THE SHADOW PRICE OF A CONSTRAINT 94

<b>3.5</b>	<b>MORE ON SENSITIVITY ANALYSIS OF A BINDING CONSTRAINT'S RIGHT-HAND SIDE</b>	<b>97</b>
	Determination of the Optimal Solution's Coordinates in Terms of $\Delta$	97
	Determination of the Optimal Values of the Slack Variables	99
	Determination of the Optimal Objective Value	99
	Determination of the Range of Validity's Upper Limit	100
	Determination of the Range of Validity's Lower Limit	102
	The Shadow Price of the Quality Assurance Constraint	103
	A Summary	105
<b>3.6</b>	<b>SENSITIVITY ANALYSIS OF A NONBINDING CONSTRAINT'S RIGHT-HAND SIDE</b>	<b>106</b>
	Determination of the Optimal Solution's Coordinates in Terms of $\Delta$	107
	Determination of the Range of Validity	109
	The Shadow Price of the Assembly Constraint	111
	A Summary	112
<b>3.7</b>	<b>COMPUTER ANALYSIS OF OMC'S PRODUCT MIX LP</b>	<b>112</b>
<b>3.8</b>	<b>COMPUTER ANALYSIS OF PETE MOSS'S BLENDING PROBLEM</b>	<b>116</b>
<b>3.9</b>	<b>DECISION VARIABLES THAT ARE UNCONSTRAINED IN SIGN</b>	<b>121</b>
<b>3.10</b>	<b>DECISION VARIABLES THAT HAVE NONZERO LOWER BOUNDS</b>	<b>123</b>
<b>3.11</b>	<b>CONCLUDING REMARKS</b>	<b>124</b>
<b>3.12</b>	<b>CHAPTER CHECKLIST AND GLOSSARY</b>	<b>126</b>
	Checklist of Concepts and Techniques	126
	Glossary	126
	Exercises	127

## **4 LINEAR PROGRAMMING: APPLICATIONS 137**

<b>4.1</b>	<b>INTRODUCTION</b>	<b>137</b>
<b>4.2</b>	<b>A MAKE-OR-BUY PROBLEM</b>	<b>139</b>
	Problem Statement	139
	Your Recommendation	140
	Definition of the LP's Decision Variables	140
	Formulating the LP's Objective Function	140
	Formulating the LP's Constraints	141
	The LP's Complete Formulation	142
	The LP's Optimal Solution	142
<b>4.3</b>	<b>A PRODUCTION AND INVENTORY PLANNING PROBLEM</b>	<b>143</b>
	Problem Statement	142
	Your Recommendation	144
	Defining the LP's Decision Variables	145
	Formulating the LP's Objective Function	145
	Formulating the LP's Constraints	146
	The LP's Complete Formulation	148
	The LP's Optimal Solution	148
<b>4.4</b>	<b>A FINANCIAL PLANNING PROBLEM</b>	<b>150</b>
	Problem Statement	150
	Your Recommendation	152
	Defining the LP's Decision Variables	152
	Formulating the LP's Objective Function	152
	Formulating the LP's Constraints	153
	The LP's Complete Formulation	155
	The LP's Optimal Solution	156
<b>4.5</b>	<b>A TRANSPORTATION PROBLEM</b>	<b>157</b>
	Problem Statement	157
	Your Recommendation	159
	Defining the LP's Decision Variables	160
	Formulating the LP's Objective Function	160
	Formulating the LP's Constraints	161
	The LP's Complete Formulation	162
	The LP's Optimal Solution	162
	Formulating More Complex Transportation Problems	163
	A Final Comment on the Transportation Problem	165
<b>4.6</b>	<b>A PERSONNEL SCHEDULING PROBLEM</b>	<b>165</b>
	Problem Statement	165
	Your Recommendation	166
	Defining the LP's Decision Variables	166
	Formulating the LP's Objective Function	166
	Formulating the LP's Constraints	167
	The LP's Complete Formulation	167
	The LP's Optimal Solution	168
<b>4.7</b>	<b>CONCLUDING REMARKS</b>	<b>170</b>
<b>4.8</b>	<b>CHAPTER CHECKLIST AND GLOSSARY</b>	<b>172</b>
	Checklist of Concepts and Techniques	173
	Glossary	173
	Exercises	174

---

## **5 LINEAR PROGRAMMING: ADVANCED APPLICATIONS, INCLUDING GOAL PROGRAMMING 184**

- 5.1 INTRODUCTION 184**
- 5.2 PIECEWISE LINEAR PROGRAMMING 184**
  - An Introduction to Piecewise Linear Functions 184    Formulating the LP 189    The LP's Complete Formulation 193    The LP's Optimal Solution 193    The Fill Restrictions 193    A Summary 194
- 5.3 USE OF DEVIATION VARIABLES 194**
  - A Revision of Suny's Production and Inventory Planning Problem 194
  - An Introduction to Deviation Variables 196    The LP's Complete Formulation 198    The LP's Optimal Solution 198    A Summary 199
- 5.4 GOAL PROGRAMMING, A SPECIALIZED USE OF DEVIATION VARIABLES 200**
  - An Overview of Multicriterion Decision Problems 200    Problem Statement 202    Defining the Goal Program's Decision Variables 203    Formulating the Goal Program's Structural Constraints 203    Formulating the Goal Program's Primary Goal 204    Formulating the Goal Program's Secondary Goal 205    Formulating the Goal Program's Tertiary Goals 205    The Goal Program's Complete Formulation 206    Solving the Goal Program 207    A Summary 208
- 5.5 A MAXIMIN (OR MINIMAX) OBJECTIVE FUNCTION 209**
  - Problem Statement 210    Defining the LP's Decision Variables 210    Formulating the LP's Structural Constraints 210    Formulating the LP's Objective Function 211    The LP's Complete Formulation 212    The LP's Optimal Solution 213    A Summary 213
- 5.6 CONCLUDING REMARKS 214**
- 5.7 CHAPTER CHECKLIST AND GLOSSARY 214**
  - Checklist of Concepts and Techniques 214    Glossary 214    Exercises 215

---

## **6 LINEAR PROGRAMMING: THE SIMPLEX METHOD 222**

- 6.1 INTRODUCTION 222**
- 6.2 TRANSFORMING OMC'S LP INTO EQUALITY FORM 223**
- 6.3 THE CORRESPONDENCE BETWEEN GEOMETRY AND ALGEBRA 225**
  - An Infinite Number of Solutions 226    Algebraically Identifying Feasible Solutions 228    Algebraically Identifying a Corner Point 228    A Finite Number of Basic Feasible Solutions 231
- 6.4 A VERBAL "PREVIEW" OF THE SIMPLEX METHOD 232**
  - Adjacent Basic Feasible Solutions 233    A Verbal "Preview" of the Simplex Method 237
- 6.5 MOVING FROM ONE BASIC FEASIBLE SOLUTION TO AN ADJACENT BASIC FEASIBLE SOLUTION 238**
  - Transforming a System of Equations Using Elementary Equation Operations 238    Moving from One Basic Solution to Another by Employing Elementary Equation Operations 240    A Summary 244
- 6.6 ALGEBRAICALLY SELECTING THE ENTERING BASIC VARIABLE AND THE LEAVING BASIC VARIABLE 246**
  - Constructing a Simplex Tableau 246    Selection of the Entering Basic Variable 249    Selecting the Leaving Basic Variable 257    Pivoting to Obtain the Adjacent Basic Feasible Solution 260

6.7	A SUMMARY OF THE SIMPLEX METHOD	263
6.8	USING THE SIMPLEX METHOD TO SOLVE OMC'S LP	264
	Identifying an Initial Basic Feasible Solution	265
	The First Iteration	266
	The Second Iteration	267
	The Third Iteration	268
	The Fourth (and Last) Iteration	269
6.9	DEGENERACY	269
	Graphical Illustrations of Degeneracy	271
	Solving the Modification of OMC's LP	272
6.10	CONCLUDING REMARKS	277
6.11	CHAPTER CHECKLIST AND GLOSSARY	277
	Checklist of Concepts and Techniques	277
	Glossary	278
	Exercises	279

---

## 7

### **LINEAR PROGRAMMING: THE SIMPLEX METHOD CONTINUED, SENSITIVITY ANALYSIS, AND DUALITY 287**

7.1	INTRODUCTION	287
7.2	MODIFYING THE SIMPLEX METHOD TO SOLVE A NONSTANDARD LINEAR PROGRAM	287
	Solving an LP that Involves Minimization	288
	Solving an LP When Some Decision Variables Lack Nonnegativity Constraints	288
	Eliminating Negative Right-Hand Sides from Structural Constraints	288
	Solving an LP Containing Structural Constraints of the $\geq$ Type or = Type	289
7.3	RECOGNIZING INFEASIBILITY, UNBOUNDEDNESS, AND MULTIPLE OPTIMALITY	298
	Recognizing Infeasibility	299
	Recognizing Unboundedness	301
	Recognizing Multiple Optimality	303
7.4	SENSITIVITY ANALYSIS OF AN OBJECTIVE-FUNCTION COEFFICIENT	307
	The Range of Optimality for a Nonbasic Variable's Objective-Function Coefficient	309
	The Range of Optimality for a Basic Variable's Objective-Function Coefficient	310
	Continuing on to Optimality When the Change in an Objective-Function Coefficient Is Too Large	312
7.5	SENSITIVITY ANALYSIS OF A STRUCTURAL CONSTRAINT'S RIGHT-HAND SIDE	313
	Sensitivity Analysis of the Right-Hand Side of a Binding Constraint	314
	Sensitivity Analysis of the Right-Hand Side of a Nonbinding Constraint	319
7.6	DUALITY	320
	Converting the Primal LP into the Dual LP	320
	Other Primal-Dual Relationships	323
	The Dual of More General LPs	328
	An Economic Interpretation of the Dual	332
	The Relationship Between a Structural Constraint's Shadow Price and the Constraint's Associated Dual Variable	334
7.7	CONCLUDING REMARKS	334
7.8	CHAPTER CHECKLIST AND GLOSSARY	335
	Checklist of Concepts and Techniques	335
	Glossary	336
	Exercises	336

---

## 8

### **NETWORK OPTIMIZATION PROBLEMS 343**

8.1	AN EXAMPLE OF A NETWORK OPTIMIZATION PROBLEM	343
	Representing Ned's Decision Problem as a Network	346
	Formulation of Ned's Decision Problem as a Linear Program	348
	The Special Structure of Ned's Network LP	349

**8.2** AN OVERVIEW OF DECISION PROBLEMS HAVING A NETWORK REPRESENTATION 351

**8.3** USING A NETWORK SOFTWARE PACKAGE 354

**8.4** EXCESS SUPPLY 357

**8.5** COSTS AND BOUNDS ASSOCIATED WITH THE TOTAL FLOW ON A SUBSET OF ARCS THAT ORIGINATE (OR TERMINATE) AT A NODE 359

**8.6** FOUR SPECIAL CASES OF THE MINIMUM COST NETWORK FLOW PROBLEM 365

    The Transportation Problem 365      The Assignment Problem 367

    The Shortest Path Problem 371      The Maximum Flow Problem 373

    Concluding Remarks 376

**8.7** THE MINIMUM-SPANNING-TREE PROBLEM 377

**8.8** CONCLUDING REMARKS 382

**8.9** CHAPTER CHECKLIST AND GLOSSARY 384

    Checklist of Concepts and Techniques 384      Glossary 384      Exercises 385

---

## 9 INTEGER LINEAR PROGRAMMING 391

**9.1** INTRODUCTION 391

**9.2** A TAXONOMY FOR INTEGER LINEAR PROGRAMS 392

**9.3** THE LINEAR PROGRAMMING RELAXATION OF AN INTEGER LINEAR PROGRAM 393

**9.4** ATTEMPTING TO SOLVE AN INTEGER LINEAR PROGRAM BY ROUNDING 396

**9.5** A PRACTICAL PROCEDURE FOR SOLVING AN INTEGER LINEAR PROGRAM 401

**9.6** AN OVERVIEW OF THE APPLICATIONS OF INTEGER LINEAR PROGRAMMING 402

**9.7** CAPITAL BUDGETING PROBLEMS 403

    The Knapsack Problem 407

**9.8** A FIXED CHARGE PROBLEM 411

**9.9** A CONTRACT AWARDS PROBLEM 414

**9.10** A FACILITY LOCATION PROBLEM 420

**9.11** A CREW SCHEDULING PROBLEM 426

**9.12** CLUSTER ANALYSIS FOR MARKETING RESEARCH 431

**9.13** SOLVING INTEGER LINEAR PROGRAMS USING A COMPUTER SOFTWARE PACKAGE 435

**9.14** SOLVING AN INTEGER LINEAR PROGRAM USING THE BRANCH-AND-BOUND METHOD 436

    Initialization 437      Iteration 1 441      Iteration 2 444      Iteration 3 446

    Iteration 4 447      Iteration 5 448      Why an ILP Is Difficult to Solve 450

    Using the B & B Method to Solve a Pure-Binary ILP 451      Using the B & B Method to Solve a Mixed-General or a Mixed-Binary ILP 452

    Summary of the B & B Method 452

**9.15** CONCLUDING REMARKS 454

**9.16** CHAPTER CHECKLIST AND GLOSSARY 455

    Checklist of Concepts and Techniques 455      Glossary 456      Exercises 458

---

## 10 PROJECT MANAGEMENT: FUNDAMENTAL TOPICS 465

- 10.1 INTRODUCTION 465
- 10.2 PHASE I: PROJECT FORMULATION 467
  - Step 1: Project Decomposition 468
  - Step 2: Specification of the Precedence Relationships 469
  - Step 3: Estimation of the Activity Durations 470
  - Step 4: Network Construction 471
- 10.3 PHASE II: PLANNING AND SCHEDULING 476
  - The Concept of a Critical Path 476
  - Step 5: Computation of Each Activity's Earliest Starting and Earliest Finish Times 478
  - Step 6: Computation of Each Activity's Latest Starting and Latest Finishing Times 482
  - Step 7: Computations of Slacks and Identification of the Critical Path 485
  - Step 8: Scheduling the Activities 492
- 10.4 PHASE III: MONITORING AND REPLANNING 497
  - Step 9: Monitoring of the Project's Activities 497
  - Step 10: Replanning of the Remaining Portion of the Project 497
- 10.5 COMPUTER IMPLEMENTATION OF PERT/CPM 498
- 10.6 CONCLUDING REMARKS 499
- 10.7 CHAPTER CHECKLIST AND GLOSSARY 499
  - Checklist of Concepts and Techniques 499
  - Glossary 499
  - Exercises 501

---

## 11 PROJECT MANAGEMENT: ADVANCED TOPICS 504

- 11.1 INTRODUCTION 504
- 11.2 AN APPROACH TO PROJECTS WITH STOCHASTIC ACTIVITY DURATIONS 504
- 11.3 TIME-COST TRADEOFFS 512
- 11.4 LINEAR PROGRAMMING APPLICATIONS TO PROJECT MANAGEMENT 525
  - A Linear Programming Model of the Basic PERT/CPM Model 525
  - A Linear Programming Model of the Time-Cost Trade-Off Model 528
- 11.5 CONCLUDING REMARKS 531
- 11.6 CHAPTER CHECKLIST AND GLOSSARY 532
  - Checklist of Concepts and Techniques 532
  - Glossary 532
  - Exercises 533

---

## 12 DECISION ANALYSIS: FUNDAMENTAL TOPICS 536

- 12.1 INTRODUCTION 536
- 12.2 A PAYOFF MATRIX APPROACH FOR A SINGLE-STAGE DECISION-ANALYSIS PROBLEM 537
- 12.3 NONPROBABILISTIC DECISION-MAKING CRITERIA 540
  - The Maximax Criterion 540
  - The Maximin Criterion 541
  - The Minimax Regret Criterion 542
- 12.4 PROBABILISTIC DECISION-MAKING CRITERIA 545
  - Assessing Probabilities 545
  - The Expected-Monetary-Value Criterion 547
  - Criticism of the EMV Criterion 549
  - The Expected Regret Criterion 550

<b>12.5</b>	<b>A DECISION TREE FOR A SINGLE-STAGE DECISION-ANALYSIS PROBLEM</b>	<b>551</b>
	“Growing” a Decision Tree	551
	“Pruning” a Decision Tree	554
<b>12.6</b>	<b>THE EXPECTED VALUE OF PERFECT INFORMATION</b>	<b>558</b>
	Computing the EVPI	560
	The Relationship of the EVPI to the Expected Value of Imperfect Information	560
	Computing the EVPI Using a Decision-Tree Approach	561
	Yet Another Method for Computing the EVPI	566
	Section Summary	566
<b>12.7</b>	<b>A SIMPLIFICATION OF HOLLY’S DECISION-ANALYSIS PROBLEM</b>	<b>566</b>
<b>12.8</b>	<b>SENSITIVITY ANALYSIS</b>	<b>568</b>
<b>12.9</b>	<b>MULTISTAGE DECISION-ANALYSIS PROBLEMS</b>	<b>571</b>
	An Example	571
	Growing MBI’s Decision Tree	572
	Pruning Figure 12.13’s Decision Tree	575
	Section Summary	577
<b>12.10</b>	<b>CONCLUDING REMARKS</b>	<b>578</b>
<b>12.11</b>	<b>CHAPTER CHECKLIST AND GLOSSARY</b>	<b>578</b>
	Checklist of Concepts and Techniques	578
	Glossary	579
	Exercises	580

---

## 13 DECISION ANALYSIS: ADVANCED TOPICS 586

<b>13.1</b>	<b>INTRODUCTION</b>	<b>586</b>
<b>13.2</b>	<b>THE EXPECTED VALUE OF IMPERFECT INFORMATION</b>	<b>586</b>
<b>13.3</b>	<b>REVISING PROBABILITIES IN RESPONSE TO ADDITIONAL INFORMATION</b>	<b>589</b>
<b>13.4</b>	<b>COMPUTING THE EXPECTED VALUE OF IMPERFECT INFORMATION</b>	<b>597</b>
<b>13.5</b>	<b>AN OVERVIEW OF UTILITY AS A BASIS FOR DECISION MAKING</b>	<b>600</b>
<b>13.6</b>	<b>A REFERENCE LOTTERY AND ITS CERTAINTY EQUIVALENT</b>	<b>601</b>
<b>13.7</b>	<b>ASSESSING A UTILITY FUNCTION</b>	<b>603</b>
<b>13.8</b>	<b>USING UTILITY AS A DECISION-MAKING CRITERION</b>	<b>609</b>
<b>13.9</b>	<b>CHARACTERIZING A DECISION MAKER’S ATTITUDE TOWARD RISK BY THE SHAPE OF THE UTILITY FUNCTION</b>	<b>611</b>
<b>13.10</b>	<b>CONCLUDING REMARKS</b>	<b>616</b>
<b>13.11</b>	<b>CHAPTER CHECKLIST AND GLOSSARY</b>	<b>617</b>
	Checklist of Concepts and Techniques	617
	Glossary	617
	Exercises	618

---

## 14 INVENTORY MANAGEMENT UNDER DETERMINISTIC DEMAND 625

<b>14.1</b>	<b>INTRODUCTION</b>	<b>625</b>
	The Case Against Having a High Inventory Level	626
	The Case for Having a High Inventory Level	627
	The Goal of Inventory Management	627
<b>14.2</b>	<b>CHARACTERISTICS OF THE INVENTORY ENVIRONMENT</b>	<b>627</b>
	Single Item Versus Multiple Items	628
	Perishable Items Versus Nonperishable Items	628
	Ordering Versus Production	628
	Single-Echelon Versus Multiechelon System	628
	The Nature of Planning Horizon	629
	Deterministic Demand Versus Stochastic Demand	629
	Dependent Demand Versus Independent Demand	629
	The Ordering (or Production) Policy	630
	Deterministic Lead Time Versus Stochastic Lead Time	630
	The Treatment of a Stockout	631

<b>14.3</b>	<b>COST CRITERIA</b>	632			
	Ordering Cost (When Ordering) and Production Cost (When Producing)	632	Holding Cost	633	Stockout Cost
					633
					A Warning about Computing of Costs
					634
<b>14.4</b>	<b>THE ECONOMIC ORDER QUANTITY MODEL</b>	634			
	Inventory Management at St. Andrew's Hospital	635	The Assumptions of the EOQ Model	635	The How-Much-to-Order Decision
					636
					The Effects of Using a Nonoptimal $Q$
					642
					The When-to-Order Decision
					645
					Two Caveats
					648
					The Importance of the EOQ Model
					648
<b>14.5</b>	<b>AN EOQ MODEL WITH QUANTITY DISCOUNTS</b>	649			
<b>14.6</b>	<b>THE ECONOMIC PRODUCTION QUANTITY MODEL</b>	652			
<b>14.7</b>	<b>MATERIAL REQUIREMENTS PLANNING</b>	658			
	Independent Versus Dependent Demand	658	The Rationale for MRP	659	The Details of MRP
					662
<b>14.8</b>	<b>CONCLUDING REMARKS</b>	666			
<b>14.9</b>	<b>CHAPTER CHECKLIST AND GLOSSARY</b>	666			
	Checklist of Concepts and Techniques	667	Glossary	667	Exercises
					668

## **15 INVENTORY MANAGEMENT UNDER STOCHASTIC DEMAND 676**

<b>15.1</b>	<b>INTRODUCTION</b>	676			
<b>15.2</b>	<b>AN OVERVIEW OF THE EFFECT STOCHASTIC DEMAND AND LEAD TIME HAVE ON THE REORDER FILE</b>	676			
<b>15.3</b>	<b>THE ORDER-QUANTITY REORDER-LEVEL INVENTORY POLICY</b>	677			
<b>15.4</b>	<b>A STOCHASTIC VERSION OF ST. ANDREW'S PROBLEM</b>	677			
<b>15.5</b>	<b>BASING THE WHEN-TO-ORDER DECISION ON A HISTOGRAM</b>	680			
<b>15.6</b>	<b>BASING THE WHEN-TO-ORDER DECISION ON A PROBABILITY DISTRIBUTION</b>	683			
	Using a Normal Distribution	683	Using a Uniform Distribution	684	
	The Need for Caution When Choosing the Probability Distribution	688			
<b>15.7</b>	<b>A SUMMARY OF THE (<math>Q</math>, <math>RL</math>) POLICY WHEN DEMAND AND LEAD TIME ARE STOCHASTIC</b>	688			
<b>15.8</b>	<b>AN OVERVIEW OF THE NEWSBOY PROBLEM</b>	689			
<b>15.9</b>	<b>SOLVING A NEWSBOY PROBLEM</b>	691			
	Solution by Computing the Expected Total Profit for Each Alternative Ordering Quantity	691	A Shortcut for Solving MCC's Newsboy Problem	692	
<b>15.10</b>	<b>SOLVING THE NEWSBOY PROBLEM WHEN DEMAND HAS A NORMAL OR UNIFORM DISTRIBUTION</b>	694			
	Using a Normal Probability Distribution	694	Using a Uniform Distribution	695	The Need for Caution When Choosing the Probability Distribution
					695
<b>15.11</b>	<b>VARIATION OF THE NEWSBOY PROBLEM</b>	695			
	A Newsboy Problem with the Possibility of Backlogging	695			
	A "Disguised" Newsboy Problem	696			
<b>15.12</b>	<b>A SUMMARY OF THE NEWSBOY PROBLEM</b>	697			
<b>15.13</b>	<b>CONCLUDING REMARKS</b>	698			
<b>15.14</b>	<b>CHAPTER CHECKLIST AND GLOSSARY</b>	699			
	Checklist of Concepts and Techniques	699	Glossary	699	Exercises
					700

---

## 16 QUEUEING ANALYSIS 705

- 16.1 INTRODUCTION 705
- 16.2 THE FUNDAMENTAL STRUCTURE OF A QUEUEING SYSTEM 706
  - Size of the Calling Population 707 Probability Distribution Governing the Interarrival Times 707 Queue Capacity 708 Unusual Customer Behavior 708 Service Discipline 708 Configuration of the Service Facilities that Comprise the Service Mechanism 709 The Number of Servers at Each Service Facility 710 Probability Distribution Governing the Service Times 710 Unusual Server Behavior 710
- 16.3 A QUEUEING SYSTEM'S OPERATING CHARACTERISTICS 711
- 16.4 THE EXPONENTIAL PROBABILITY DISTRIBUTION 713
  - Brief Review of Some Topics in Probability Theory 713 Properties of the Exponential Probability Distribution 714 Implications of the Exponential Distribution for Interarrival Times and Service Times 720
- 16.5 OUR BASIC QUEUEING SYSTEM 722
  - Analysis of Option 1: The Status Quo 725 Analysis of Option 2: Replacement of the Current ATM with a Faster ATM 725 Analysis of Option 3: Installation of a Second ATM at the Opposite End of the Mall 726 Analysis of Option 4: Installation of a Second ATM Adjacent to the Existing One 726
- 16.6 OUR BASIC QUEUEING SYSTEM WITH A FINITE QUEUE CAPACITY 729
- 16.7 OUR BASIC QUEUEING SYSTEM WITH A FINITE CALLING POPULATION 732
- 16.8 A COST-MINIMIZING APPROACH TO SELECTING FROM AMONG ALTERNATIVE QUEUEING SYSTEMS 736
- 16.9 A TAXONOMY FOR QUEUEING SYSTEMS 739
- 16.10 CONCLUDING REMARKS 739
- 16.11 CHAPTER CHECKLIST AND GLOSSARY 740
  - Checklist of Concepts and Techniques 740 Glossary 740 Exercises 742

---

## 17 SIMULATION 749

- 17.1 INTRODUCTION 749
- 17.2 SIMULATING A STOCHASTIC EVENT USING A RANDOM NUMBER GENERATOR 751
- 17.3 USING SIMULATION TO ANALYZE MAY'S BELT REPLACEMENT PROBLEM 754
- 17.4 AN OVERVIEW OF SIMULATION 758
- 17.5 SIMULATING A PROJECT WITH STOCHASTIC ACTIVITY DURATIONS 758
- 17.6 SIMULATING THE EFFECTS OF ILLEGALLY PARKED CARS ON A CITY'S MECHANICAL STREET CLEANING EFFORTS 764
  - Mechanical Street Cleaning Efforts 764 Gotham City's Street Cleaning Problem 764 Litter Placement 765 Parked Car Placement 766 The Path of the Mechanical Sweeper 766 Measuring the Cleanliness of a Street 767 Conducting One Simulation Run 768 Computer Simulation 770
- 17.7 NEXT-EVENT SIMULATION 771
  - Däagen Hazs' Machine Repair Problem 771 A Manual Simulation of DH's Problem 772

<b>17.8</b>	<b>COMPUTER GENERATION OF RANDOM NUMBERS</b>	<b>779</b>
	Generating $U(0, 1)$ Random Numbers	779
	Using $U(0, 1)$ Random Numbers to Simulate a Stochastic Event Having a Finite Number of Outcomes	781
	Using $U(0, 1)$ Random Numbers to Simulate a Stochastic Event Having an Infinite Number of Outcomes	782
<b>17.9</b>	<b>CONCLUDING REMARKS</b>	<b>783</b>
<b>17.10</b>	<b>CHAPTER CHECKLIST AND GLOSSARY</b>	<b>785</b>
	Checklist of Concepts and Techniques	785
	Glossary	785
	Exercises	786

## **SOLUTIONS TO SELECTED EXERCISES 792**

## **INDEX 817**