TreeAge Tutorial

An Example:

Suppose you have $1000 to invest and there are two options:

Option 1: invest in stock.  After a year, the value of your investment may go up $500 with 60% probability and go down with 40% probability.
Option 2: invest in certificate of deposit with an interest rate of 5%.

Do a decision tree analysis using TreeAge.

Step 1: Naming nodes and adding branches.

- Choose node type: under the menu, choose “Edit” -> “Change node type”
- Input branch name
- Add branch: select the node, choose “Options” -> “Add branches”

Do the same procedure again and again to build the tree.

Step 2: Entering payoffs.

Select the node, choose “Options” -> “Change node type”, click on “Terminal” button, enter “Payoff 1”.

Step 3: Entering probabilities.

Select the node, press “Tab” to the probability field, input the probability, press “Tab” to return to the text field.
**Step 4: Setting calculation preferences.**

Choose “Edit” -> “Preferences”, select the “Calculation Method”, make sure it is simple, use payoff 1, optimal path is set to high.

**Step 5: Calculating the tree.**

Choose “Analysis” -> “Roll back”

See the tree as follows:

![Tree Diagram]

**Two other notes:**

**Changing decimal place:**

Choose “Edit” -> “Preferences” -> “Calculation method” -> “Set numeric format”

**Linking to Excel:**

Copy the cell from Excel, choose “Edit” -> “Paste Link”.

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