Oil Drilling Simulation Homework

This is an exercise in sequential capital budgeting. You will be presented with 18 sequential investment projects.

You should first choose whether to purchase the rights to each project (a potential oil field) and then decide how long to pursue each investment (how many wells to drill). Thus, you must make two decisions. First, you need to decide whether to purchase the rights to the project (whether to buy the land). Once you have purchased the rights to the project, you must decide how long to continue investing in the project (how many wells to drill).

Each time you invest (drill a well), it will cost you $10. If the investment (drilling a well) is successful, it has a positive payoff which you will be given at the beginning of each scenario. The payoff will differ across scenarios.

If you are successful (i.e., you find oil), you will receive the payoff and the program will move to the next scenario. If the investment (drilling a well) is unsuccessful, the payoff is 0. However, you will be given the option to invest again (drill another well). You may drill up to 30 wells in each scenario.

For the purpose of this exercise, ignore discounting (i.e. assume the interest rate is zero).

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Your name (first and last):

Your email address:

7 digit ID number: (Do not use 1234567)

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