**Investment Decisions and the Costs of Production**

Business leaders must make decisions in a complex, competitive and often uncertain environment. Discipline and careful analysis can reduce the chances of making poor decisions, but even the most well prepared, flexible and astute business leaders make mistakes when it comes to deciding about investments and the costs of production. For this assignment, you will answer two questions for which you will analyse investment opportunities, costs of production and economies of scope. In approximately **1,000 words**, provide your answers to the following questions for each scenario.

1. Sonia is planning to start a home health care business. She will be providing non-medical personnel to assist clients in their homes. She has asked you to review the costs of starting the business to determine if it will be profitable. Sonia has provided you with the annual fixed costs for her health care business below.  
     
   Licenses and fees:  $2,000  
   Insurance:             $5,000  
   Communications:    $2,400  
   Website:               $1,800  
     
   Sonia’s labour costs her $15 per hour, including salaries and payroll taxes. She plans to charge her clients $25 per hour. The typical client uses 15 hours of services a week on average.
   * How many hours of home health care are needed each year for Sonia to break even, and how many customers and workers might she need?
   * How many clients and workers might Sonia need if she wants to make about $2,000 in profit a month?
   * Advise Sonia on whether this enterprise appears to be a profitable option, and provide a rationale for your answer.
2. Blake’s Donut Shop has sold only one product—donuts—but is considering adding coffee as well. Blake’s contractor estimates that it will cost $20,000 of Blake’s savings, which were earning 3% annually, to convert some of the counter and storage space to accommodate coffee sales. Selling coffee will also incur an average annual cost of $3,000 to maintain equipment. Additionally, the variable cost of providing a cup of coffee is $0.25, and the price charged will be $1.00. Blake believes he will be able to sell 30,000 cups of coffee a year.
   * Should Blake add a coffee service? If so, how long will it take Blake to recoup his initial costs of entry?
   * After one year, Blake has to lower the price of his coffee to $0.75 a cup in response to competition to continue selling 30,000 cups of coffee a year. If he keeps the price of his coffee at $1.00, he will only sell 25,000 cups. What does this situation mean about the price elasticity for coffee in Blake’s market, and what would you advise Blake to do?  Keeping in mind that Blake is not an economist, explain to him his options and advise which option is best. Use language that is professional yet accessible.
   * How does the concept of cognitive bias influence the economic decisions presented in the scenarios?

* ***Please note the following administrative assignment requirements:***
  + Please include a cover sheet - Include your course name, your first and last names and student number.
  + Word document only - we will use track changes to provide feedback and grade your submission. Do not submit a pdf.
  + Your assignment should be set out in essay format evaluating the points noted above.
  + You may use headings.
  + References use APA style as per text guide.
  + In text referencing and reference list are not included in the word count. Note your reference list is simply an alphabetical listing of all ‘in text’ references you use, both directly and indirectly. Do not include references in your reference list that you have not cited in your essay.