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Optimality criteria and risk in inventory models: The case of the newsboy problem. (English)

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This paper examines the use of market-valuation models in analysing stochastic inventory problems. As an example, the one-period newsboy problem is treated using the capital asset pricing model (CAPM). It is pointed out that, unlike other working-capital decisions, the use of CAPM to analyse inventory problems need not imply conflicting assumptions. The resulting optimal policy is characterized and is compared with the classical expected benefit maximization framework. It is shown that when the relevant risk of the inventory investment is considered, results are dramatically different.

MSC:

[90B05](#) Inventory, storage, reservoirs

Cited in **1** Review
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