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ECO 1101
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Problem 5, page 19 (under Problems and Applications Economics in the textbook: *Principles of Macroeconomics*)

The company that you manage has invested \$5 million in developing a new product, but the development is not quite finished. At a recent meeting, your salespeople report that the introduction of competing products has reduced the expected sales of your new product to \$3 million. If it would cost \$1 million to finish development and make the product, should you go ahead and do so? What is the most that you should pay to complete development?

The development and production of this product only cost me 1 million, so I will continue to do it, because if I stop development, I will lose 5 million. I would rather generate 3 million in sales than lose the 5 million that I have already invested. We never know whether sales could increase, and we could get higher income. To complete the development, I should pay up to 3 million.