

Preface

This edited book provides a neatly bound collection and integration of all the classical papers and important recent contributions to the literature on real options and capital investment under uncertainty that has been revolutionizing modern investment decision making. All the important thought leaders in finance and economics that made substantial contributions to the development of real options theory and practice are represented here.

Corporate resource allocation, capital budgeting or investment under uncertainty has been a stagnant field for several decades, until the recent developments in real options have provided the tools and unlocked the possibilities to revolutionize the field. The insights and techniques derived from option pricing are capable of quantifying the elusive elements of managerial operating flexibility and strategic interactions thus far ignored or underestimated by conventional Net Present Value (NPV) and other quantitative approaches.

The book includes sections on identifying reasons for the underinvestment problem and general/conceptual frameworks for viewing productive investment opportunities as real options; useful building blocks; quantifying various types of real options separately and in combination; competitive and strategic aspects of investment under uncertainty; various useful numerical analysis techniques; a variety of applications, including valuing natural resources (mines, oil properties, etc.), R&D and pioneer ventures, land development, strategic acquisitions, power plants, flexible manufacturing and multinational operations; and empirical evidence from oil leases, land prices, and discontinued operations.

Both academic and practitioner interest in these developments is unusually high. The book can serve as reference/supplementary material for researchers and students (e.g., in advanced/elective finance courses in option pricing, capital budgeting or corporate finance, doctoral seminars, and as a library resource). It should also be of significant interest and value to the newcomer as well as the seasoned professional (e.g., to corporate planners and finance executives).

It is our hope that a synthesized collection of these classical pieces and recent developments may help spark further interest and subsequent developments and applications in this important and rapidly growing field that is expected to become the dominant valuation paradigm as we enter the uncertainties and challenges of the twenty-first century.