

# Irreversible Investment Under Uncertainty: Conservation Easements and the Option to Develop Agricultural Land

Abebayehu Tegene, Keith Wiebe, Betsey Kuhn

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## Abstract

A landowner's decision to convert farmland to urban use is presented as an irreversible investment under uncertainty. This approach improves on conventional approaches to the valuation of conservation easements by incorporating option values. This approach also refines the calculation of compensation potentially due to landowners when use of their land is restricted by government policies to protect the environment.

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