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Strategic parameters for capital budgeting when abandonment value is stochastic

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Abstract

This paper investigates how capital budgeting techniques that include the option to abandon can be exploited as management tools to aid not only in the invest/abandon decision of strategic investment and its correlation with the timing of the salvage value and its volatility. The paper shows that the timing of the salvage value and its correlation with the timing of the investment in capital budgeting is a critical point in making capital budgeting decisions as to how to proceed with ongoing

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