

Applied Financial Economics >

Volume 12, 2002 - [Issue 2](#)

63 | 7 | 0
Views | CrossRef citations to date | Altmetric

Original Articles

Strategic parameters for capital budgeting when abandonment value is stochastic

Ephraim Clark & Patrick Rousseau

Pages 123-130 | Published online: 07 Oct 2010

 Cite this article  <https://doi.org/10.1080/09603100110088049>

Sample our
Economics, Finance,
Business & Industry Journals
>> [Sign in here](#) to start your access
to the latest two volumes for 14 days

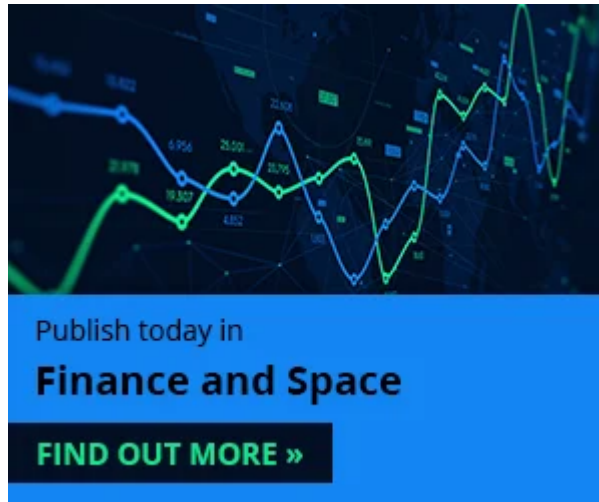
 References  Citations  Metrics  Reprints & Permissions

[Read this article](#)

 Share

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 but also in ongoing project management, financial forecasting and the timing of strategic moves. Three parameters are highlighted — the expected growth rate of the salvage value, the volatility of percentage changes in the salvage value and its correlation with the rate of return on the investment itself. Two of these parameters, volatility and correlation, interact with the volatility of the return on the investment in surprising ways, with increases at first decreasing the option value up to a critical point and increasing it thereafter. This insight has implications for the decision making process. Finally, it is shown how the model can be applied in practice to the capital budgeting process, including investment and disinvestment. It is also shown as to how the model can be used as a management tool for financial planning, monitoring ongoing investments, and for the timing of strategic moves.



Related research i

Recommended articles

Cited by
7

[Personal Relationships in the Nordics: Finnish Leaders' Social Capital Practices and Their Strategic Communication Value >](#)

Chiara Valentini et al.
International Journal of Strategic Communication
Published online: 9 May 2026



[ESG capital and corporate value creation >](#)

Emawtee Bissoondoyal-Bheenick et al.
Applied Economics
Published online: 5 May 2026



[Capital budgeting techniques and financial performance: a comparison between SMEs and large listed firms >](#)

Pupung Purnamasari
Cogent Economics & Finance
Published online: 19 Sep 2024



[View more](#)

Information for

[Authors](#)

[R&D professionals](#)

[Editors](#)

[Librarians](#)

[Societies](#)

Opportunities

[Reprints and e-prints](#)

[Advertising solutions](#)

[Accelerated publication](#)

[Corporate access solutions](#)

Open access

[Overview](#)

[Open journals](#)

[Open Select](#)

[Dove Medical Press](#)

[F1000Research](#)

Help and information

[Help and contact](#)

[Newsroom](#)

[All journals](#)

[Books](#)

Keep up to date

Register to receive personalised research and resources by email



Sign me up



Copyright © 2026 Informa UK Limited [Privacy policy](#)

[Cookies](#) [Terms & conditions](#) [Accessibility](#)

Registered in England & Wales No. 01072954
5 Howick Place | London | SW1P 1WG



Taylor & Francis
by informa