



Applied Financial Economics >

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

61 | 7
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

Recommended articles

Cited by
7

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

  

  