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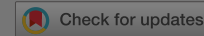
The effects of an uncertain abandonment value on the investment decision

Roger Adkins & Dean Paxson

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Abstract

Using a three-factor stochastic real option model framework, this paper examines the effects of uncertain abandonment value on the investment decision. The results show that according to the stochastic real option model, the investment decision is more sensitive to the abandonment value when the abandonment value is high. The abandonment value is more sensitive to the abandonment value when the abandonment value is high. The abandonment value is more sensitive to the abandonment value when the abandonment value is high.

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Disclosure statement

No potential conflict of interest was reported by the authors.

Notes

1. Some authors assume $\theta_\psi = r - \alpha_\psi$, without a risk adjustment. It is likely that these drifts may be related for some types of equipment such as cars, but not perhaps for ships, but we ignore these possibilities.
2. In our base case, we assume zero correlation between V , K and X , that is X may not be reflective of real option investment values. This assumption is relaxed in Figures 5 and 10.
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