

# Chapter 13

## Other Topics in Capital Budgeting

### LEARNING OBJECTIVES

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After reading this chapter, the student should be able to:

- Use the replacement chain method to compare projects with unequal lives.
- Explain why conventional NPV analysis may not capture a project's impact on the firm's opportunities.
- Define the term option value, and identify four different types of embedded real options.
- Explain what an abandonment option is, and give an example of a project that includes one.
- Identify the term decision tree and provide an example of one.
- Explain what an investment timing option is, and give an example of a project that includes one.
- Explain what a growth option is, and give an example of a project that includes one.
- Explain what a flexibility option is, and give an example of a project that includes one.
- List the steps a firm goes through when establishing its optimal capital budget in practice.