Chapter 13
Other Topics in Capital Budgeting
LEARNING OBJECTIVES

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.