

concept

Kjell Arne Brekke

Real options and
flexibility in major public
investment projects

Concept report No. 8

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Realopsjoner og fleksibilitet i store offentlige investeringsprosjekter

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Summary: This report discusses how the theory of real options can be used to quantify the value of flexibility in major public investment projects. Flexibility can be connected to choice of start-up timing, dimensions, loosely coupled projects and flexibility in operation.

The report also discuss empirical studies of how new information is used in decision making. Several studies indicate that information about benefits and cost has little influence on priority among alternative projects. Different explanations to these observations are presented.

The author concludes there is great potential for value in utilizing real options in public investment projects. However, in most cases there is little reason to believe that these values can be realized. The value of real options always depends on new information being used in decision making.

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