

Chapter 9: Real options analysis

Answers to self test questions

1. (b) The project's revenue
2. (a) The investment outlay
3. Correct answers are:

(a) Patents and copyrights	True
(b) Mineral and development rights	True
(c) The firm's technical know-how and market position	True
(d) Market opportunities	True
4. (d) When the original project gives no advantage in input or output markets
5. Correct answers are:

(a) They rest on different assumptions	False
(b) Their exercise price may not be clearly defined	True
(c) Their maturity may not be clearly defined	True
(d) Their underlying value may be difficult to calculate	True
(d) The volatility of their underlying value may be difficult to calculate	True
6. Correct answers are:

(a) Complete	True
(b) Perfect	True
(c) Arbitrage free	True
7. (b) Makes the same assumptions about the functioning of financial markets
8. (a) A European call option
9. (b) The weighted average return of the replicating portfolio
10. (c) The risk free interest rate
11. (a) A European call option
12. (d) An American put option
13. (a) A European call option on the next stage
14. (c) Should be included as exercise prices of later options
15. (b) Can be ignored, they only play a role in the earlier stages
16. (b) Not change the total value of the project
17. (a) Increase the value of equity

18. (a) A long call option on the project's assets
19. (b) The value of the project plus a short call option on the project's assets
20. (c) The option to terminate also terminates the option to extend
21. (c) Lower than the sum of their stand-alone values
22. (a) Are of the same type (both puts or both calls)
23. Correct answers are:
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| (a) If they have the same maturity | False |
| (b) If they have the same exercise price | False |
| (c) If they have both the same maturity and exercise price | True |
| (d) If they have the same style (European or American) | False |
24. (c) When competitors hold shared options and the exercise decision depends on the exercise decisions of competitors
25. (d) It gives better results than all other strategies for all actions of the competitors
26. (c) No investor wants to change his or her strategy if the strategies of the other investors become known