Financing is critical to the success of companies. This course will focus on a new approach to asset evaluation and its impact on financing.

Traditional capital budgeting approaches are based on discounted cash flow techniques, which require a number of assumptions about future market structure, demand, and operating costs. If these assumptions are not correct, the actual cash flow will be overestimated, and managers will need to adapt the old decision to the new situation, or even modify the entire strategy. This flexibility can be modelled by basing strategic investment decisions on “real options” methodology, using the notion of an option which represents the right, but not the obligation, to buy or sell a specific asset in the future. Real options methodology is a powerful instrument to avoid or reduce sunk costs, a major problem for the telecommunications operators. In this course the basic real options evaluation techniques will be presented, including the relationships between cost models and investment evaluation in the telecommunications industry.

The objectives of the course are: to show the differences between classical capital budgeting and real option evaluation techniques; to explain why and how real options can provide a more flexible instrument for decision making and for project management; and to show how real options can be used in telecommunications asset evaluation, incorporating cost models and impact in the regulatory arena.

Prerequisites: TLEN 5310, TLEN 5332 (or equivalent), TLEN 5835.

Texts:


Optional:

Alleman, James and Eli Noam (editors), The New Investment Theory of Real Options and its Implications for Telecommunications Economics, (Kluwer Academic Publisher) 1999

Access to the World Wide Web is required.