

REAL OPTIONS 2019

ISEG LISBON
THURS/FRIDAY
Professor Dean Paxson

ASSIGNMENT FOR FRIDAY 8 March

SESSION #2

1. Read REAL OPTION VALUE, CH 3 (pages 26-37) and CH 4 (pages 38-52). Do Problems 3.4, 3.5, 3.6 in Excel, Exercises 4.1, 4.2, 4.3 with a calculator, and Problems 4.4, 4.5, 4.6 in Excel.
2. A first natural extension is to apply these basic payoff diagrams and perpetual American models to what you imagine might be the real options in your project.
3. There will be a class exercise to be handed in, so please bring calculators to class.
4. By the end of today, you will have decided on a project to be discussed with me.
5. Generally, project groups should be five/six persons, everyone in a group receives the same grade. Cases are for individuals, and naturally each individual receives a separate grade. Project reports should not exceed 25 pages, including Exhibits, and cases should not exceed 10 pages, including Exhibits. Project interesting points should be presented in class in less than 30 minutes on Friday 20 April.

Here are the grading criteria for cases, projects, exams.

PROJECTS

One third. Formulation and understanding of the financial problem, development of model, stating assumptions clearly and review of relevant theory and literature.

One third. Data collection, description and analysis in Excel, answering all questions for Cases.

One third. Interpretation of results, suggestions for investment and/or management actions and conclusion.

CASES

In general the same criteria will be used for each question, if appropriate. Marks for the four questions in each case are equally weighted.

EXAMS

You are advised that “complete answers” should be given. Rather than “just the result”, show your assumptions, formulas and calculations in arriving at your answer. Each question will be marked as follows:

One third. Review the theory behind the equation or model, and state assumptions clearly.

One third. Provide the correct inputs to the model, and derive the correct output (showing all steps in the calculations).

One third. Provide a reasonable interpretation of the results.