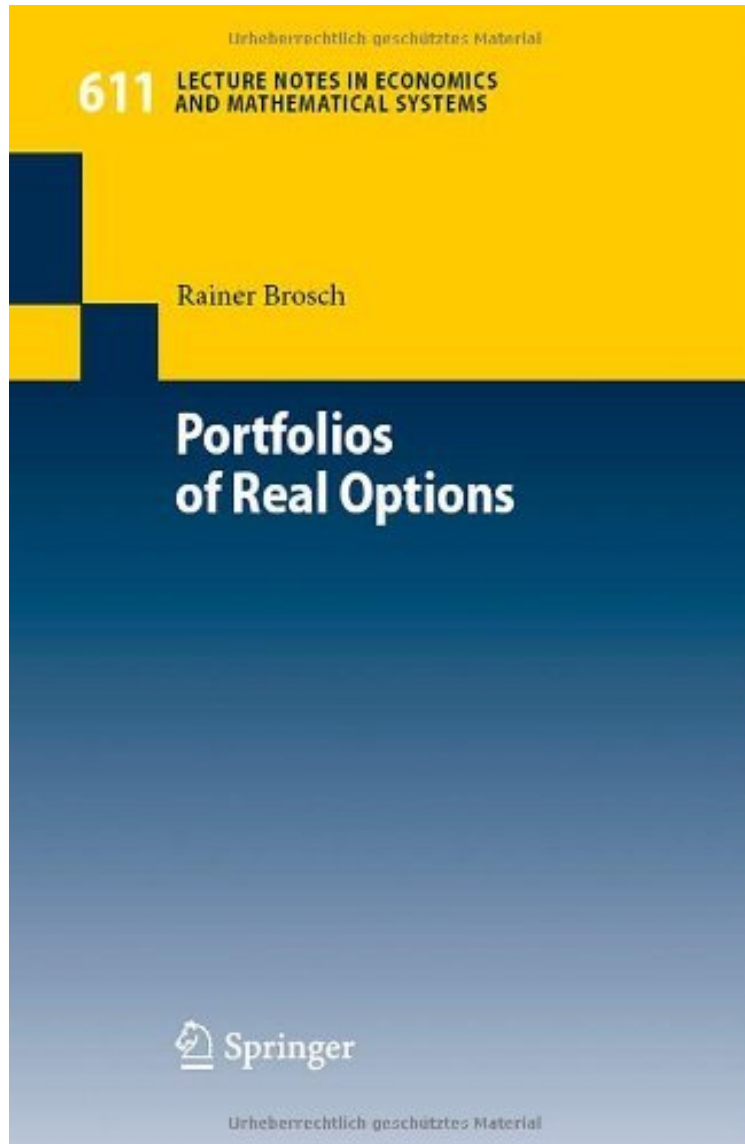


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## Portfolios of Real Options: 611 (Lecture Notes in Economics and Mathematical Systems)

*Rainer Brosch*

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**Rainer Brosch : Portfolios of Real Options: 611 (Lecture Notes in Economics and Mathematical Systems)** before purchasing it in order to gage whether or not it would be worth my time, and all praised Portfolios of Real Options: 611 (Lecture Notes in Economics and Mathematical Systems):

1 of 2 people found the following review helpful. Suggested to academics and practitioners (consultants, venture capitalists, ceos, cfo's, etc.)By Andrea MarcognoniThis research introduces a framework for evaluating and

managing portfolios of real options. After an introduction about the application of the portfolio approach to real options and an overview of literature in the field, the author develops his general framework in the chapter 4. I think it could be useful to mention the key points developed by the author in paragraph 4.1, entitled "model features": general assumptions, objective function, managerial actions permitted, risk preference, stochastic processes, volatility and correlation, inter and intra project options interaction, global dynamic budgets, synergies and operational constraints, learning, diversification as passive approach to risk management, path dependencies, modelling approach and solution, scalability. The Chapter 5, "numerical analysis", is devoted to "... exploit the impact of the main drivers of portfolio value and their impact on the optimal investment strategy." Requiring mathematical skills for a full appreciation of the framework, this book could be extremely useful for selected, qualified targets: researcher, academics, venture capitalists, consultants, CEOs and directors operating in high stakes investments industries (automotive, oil, pharma, etc.)

Valuing portfolios of options embedded in investment decisions is arguably one of the most important and challenging problems in real options and corporate finance in general. Although the problem is common and vitally important in the value creation process of almost any corporation, it has not yet been satisfactorily addressed. It is key for any corporation facing strategic resource allocation decisions, be it a pharmaceutical firm valuing and managing its pipeline of drugs, a telecom company having to select a set of technological alternatives, a venture capital or private equity firm investing in a portfolio of ventures, or any company allocating resources. Portfolios of real options typically interact such that the value of the whole differs from the sum of the separate parts. Thus one must address and value the particular configuration of options embedded in a specific situation, taking into account the configuration of other options already present in the portfolio, which in turn depends on the correlation structure among the various underlying assets and the strategic dependencies among the options themselves (e. g. , mutual exclusivity, strategic additivity, compoundness, complementarity etc. ). In that sense, optimal decisions also depend on past option exercise decisions by management and organizational capabilities put in place in the past.

From the reviews: "This book develops a modeling approach for dynamic investment problems where limited resources are allocated to interacting risky projects over time under the assumption that the market is complete and the agent is risk neutral. The author sets up the pricing model as a real options problem involving path-dependent (dis-) investment decisions. ... this book provides an important reference for both the practitioners and academics in this field." (Zhaojun Yang, *Mathematical s*, Issue 2012 i) From the Back Cover OR Society Award 2008! For his excellent monograph, Rainer Brosch won the German OR Society Award 2008 for outstanding theses in the field of Operations Research in September 2008. "Valuing portfolios of options embedded in investment decisions is one of the most important and challenging problems in real options and corporate finance in general. It is important for any corporation facing strategic resource allocation decisions, be it in pharma managing the pipeline of drugs, in telecom selecting a set of technological alternatives, or in venture capital or private equity investing in a portfolio of ventures. This work tackles real options decision making from a portfolio perspective head on within an overall budget constraint context in which interdependencies among optional decisions at each point in time and dynamically over time are explicitly considered. The proposed framework makes an important theoretical contribution in addressing this problem, while at the same time it can be of significant value to practicing managers in facing this admittedly complex and difficult task of evaluating, managing and optimally exercising interdependent corporate real options." Lenos Trigeorgis, Bank of Cyprus Chair Professor of Finance at the University of Cyprus and President of the Research and Consulting Firm Real Options Group in Nicosia, Cyprus.