

TABLE OF CONTENTS

1.	Introduction	1
	Outline of the Study	2
2.	Background and Assumptions	5
	The Landowner or Investor	5
	The Description of Available Activities	8
	The Choice of Replacement Date	9
	The Effect of Floods	10
	The Probability of Floods	11
3.	The Choice of the Optimal Activity	14
4.	The Optimal Replacement Policy	24
5.	When Flood Probabilities are Unknown: The Bayesian Approach	31
	Introduction	31
	Incomplete Information about μ	32
	The Description of Beliefs and of Learning	33
	The Simple Case: Investment Contracts can only be Made After Floods	36
	An Intermediate Case	41
	The Case where Replacement is Possible at any Time	43
6.	Flood Control and Relief Measures: An Elementary View	45
	The Definition of Flood Damage	45
	Dams, Levees, and Other Flood Protection Works	50
	Flood Insurance	54
	Flood Relief	62
	Flood Plain Zoning	66
7.	Computer Simulation of Investment Behavior in a Flood Plain	70
	Appendix FORTRAN Computer Program	82