

# Contents

Contents	ix
List of Tables	xii
List of Figures	xiv
List of Abbreviations	xvi
<b>I Introduction: Methods and Models to be Used</b>	<b>1</b>
<b>1 Financial and Real-world Option Values</b>	<b>2</b>
1.1 Raison d'etre . . . . .	3
1.2 Option Pricing . . . . .	4
1.3 Methods of Option Pricing . . . . .	5
1.3.1 Analytical Option Pricing Solutions: Brownian Motion, Ito's Lemma, Boundary Conditions . . . . .	6
1.3.2 Binomial Lattices . . . . .	9
1.3.3 Risk-Neutral Expectation and Monte Carlo-Simulation . . . . .	12
1.3.4 Example: Pricing of a Bermudan Put Option . . . . .	13
1.4 Real Options - The Insight of Myers (1977) . . . . .	16
1.5 Risky Debt - The Insight of Merton (1974) . . . . .	18
1.6 Parameter Estimation in State Space-Analysis . . . . .	19
1.6.1 The Linear Gaussian Kalman Filter . . . . .	21
1.6.2 Nonlinear Kalman Filters . . . . .	24
1.6.3 Example: Parameter Estimation by Kalman Filtering . . . . .	25
1.7 Outlook: Applications of Options Pricing . . . . .	27
1.7.1 Quasi-options . . . . .	27
1.7.2 Biogas . . . . .	28

1.7.3 Fund redemption . . . . .	29
<b>Bibliography</b>	<b>30</b>
<b>II Real Options in Environmental Economics</b>	<b>33</b>
<b>2 Dixit-Pindyck and Arrow-Fisher-Hanemann-Henry Option Concepts in a Finance Framework</b>	<b>34</b>
2.1 Introduction . . . . .	35
2.2 Investment under Uncertainty . . . . .	37
2.2.1 Valuation by Expected Utility . . . . .	37
2.2.2 Translation to Financial Option Pricing . . . . .	39
2.3 DP and QOV as Time Value and Exotic Option . . . . .	41
2.3.1 Analytic Comparison . . . . .	41
2.3.2 Numerical examples . . . . .	44
2.4 Which concept to adopt? . . . . .	45
2.5 Conclusion . . . . .	46
<b>Bibliography</b>	<b>48</b>
2.A Put-Call-Parity . . . . .	50
<b>III Real Options and Agricultural Commodities</b>	<b>51</b>
<b>3 Price-Induced Instability of Feed-in Tariff Systems: A Real Options Approach</b>	<b>52</b>
3.1 Introduction . . . . .	53
3.2 The European Biogas Industry . . . . .	58
3.3 Option Valuation of FITs . . . . .	60
3.3.1 Stakeholder Perspective . . . . .	62
3.4 Stochastic Analysis of Commodity Markets . . . . .	63
3.4.1 Commodity Price Models . . . . .	63
3.4.2 Multi-commodity models . . . . .	69
3.4.3 Data and Estimation Results . . . . .	71
3.5 Biogas valuation . . . . .	77
3.5.1 A Typical Biogas Power Plant . . . . .	77
3.5.2 Real Options Stakeholder Analysis . . . . .	85

3.6	Stability of Supply from Biogas . . . . .	88
3.7	An Optimal FIT . . . . .	90
3.8	Conclusion . . . . .	91
	<b>Bibliography</b>	<b>96</b>
	<b>IV Real Options in Fund Structures</b>	<b>112</b>
<b>4</b>	<b>The Option Value of Real Estate Fund Redemption</b>	<b>113</b>
4.1	Introduction . . . . .	114
4.2	Modelling semi-closed funds . . . . .	120
4.2.1	Closed funds . . . . .	120
4.2.2	Open-ended funds . . . . .	121
4.2.3	Option approach to semi-closed-end funds . . . . .	122
4.2.4	Impact of Co-Integration . . . . .	126
4.3	Estimation by state-space analysis . . . . .	127
4.3.1	Choice of Approximation for Nonlinearity . . . . .	129
4.3.2	Choice of Parameter Estimation Method . . . . .	131
4.4	The set of data . . . . .	133
4.5	Empirical estimation of the model . . . . .	136
4.5.1	Estimation strategy . . . . .	136
4.5.2	Parameter estimation . . . . .	136
4.5.3	Alternative: Published Redemption Values . . . . .	146
4.5.4	Discussion . . . . .	146
4.6	Conclusion . . . . .	147
	<b>Bibliography</b>	<b>150</b>