Real Options

Valuing the flexibility a project gives you.

Accounting & Finance

Types of real option.

Option	The right to	Valuable when
Expand	Scale up if it works	Uncertainty is high, upside large
Delay	Wait for information	Information will arrive soon
Abandon	Exit and recover value	Downside is severe
Switch	Change inputs or outputs	Prices are volatile

A staged project with a decision point is worth more than the same project committed upfront. Standard NPV misses that.