REAL OPTIONS: A HEDGED MONTE-CARLO METHOD

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The use of Real Options in many practical problems faces serious challenges due to the fact that often one has to use spanning asset simulations in the historical measure and to incorporate managerial views in the cash flows. Furthermore, the dimension of such simulations may be pretty high since many corporations, such as for example energy and oil companies, trade on a large number of assets in different markets.

The purpose of this talk is to present work in progress on a Monte Carlo methodology for Real Option valuation that addresses some of the challenges above. It adapts previous ideas from Potters *et al.* that were used in quantitative finance and connects with some ideas of Grasselli and Hurd.