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## The Quarterly Review of Economics and Finance

Volume 38, Issue 3, Part 2, 1998, Pages 615-633

# Valuation of internal growth opportunities: The case of a biotechnology company

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Internal growth opportunities are valued as a real option. In this model, a firm gains access to productive technology by successfully completing a basic R&D project before its competitors and introducing a new product into the market. R&D strategically impacts the speed of innovation. The existence of competition lowers the expected time of discovery. Both project value and capital expenditure—the strike price of the option, are considered stochastic. The volatility of the strike price and the cost of hedging it, project value and risk, and the firm's success rate are shown to have positive impact on growth value, whereas the time of innovation, the strike price, and the correlation of project value with strike price have a negative effect.



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