



Research Paper Number 3

Real Options as a Tool in the Decision to Relocate: An Application to the Banking Industry

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Date:

January 2000

This paper has now been published and is no longer available as a part of our Research Paper Series. The reference to this paper is:

Botteron, P. (2001): "Real Options as a Tool in the Decision to Relocate: An Application to the Banking Industry". Thunderbird International Business Review, Volume 43, Issue 3 , Pages 469 - 479

Abstract:

Certain types of industries benefit from a large flexibility in the choice of the location of their activities. This is particularly the case for banks. In this paper we show that a bank which has the possibility to locate its activities in two countries rather than in one can increase its profits. We then demonstrate that this excess profit can be evaluated through the use of real options. We then provide an extension to the model and show that the bigger the bank, the bigger the return derived from the multiple location.