

Name:

Five Minute Exercise

Land Use With Option Value

Given:

A parcel of land now used as park could be sold to a developer

There are two periods: 0 and 1

The park produces \$1M of CS in period 0

There is a $\frac{1}{3}$ chance the park's CS will be \$9M in period 1, otherwise it will be \$1M

The developer is willing to pay \$3M in either period

The interest rate is 100%

Determine:

The net present value gain from leaving the land as a park in period 0.

Answer: