Competition and the Bad News Principle in a Real Options Framework∗

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Abstract. We study the investment timing problem where two firms that compete for investment preemption know in advance the time at which the economic condition changes. We show that the so-called Bad News Principle applies to the leader firm’s investment decision near maturity in many cases. This result indicates that the option value to wait does have an impact even in a competitive situation, which is in contrast to the previous literature.

Keywords: Bad news principle, investment timing, competition, real options.

JEL classification: D92, G32, D43

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