

# **Capital Budgeting, Real Options, and Escalation of Commitment: A Behavioral Analysis of Capital Investment Decisions**

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This study uses experimental methods to explore whether the use of capital budgeting techniques, and in particular real options analysis, can reduce escalation of commitment, or the tendency of decision makers to continue to commit resources to a project after receiving negative feedback. Findings indicate that the application of capital budgeting techniques does not eliminate escalation of commitment, but that users of real options exhibit less escalation of commitment than do users of net present value analysis. This result demonstrates that the use of real options analysis affects not only the information provided to the user, but also the behavior and decisions of the user.

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