

Case Study 9

BP Amoco: Policy Statement on the Use of Project Finance

Case Study Assignments

- 1) What is project finance and how does it differ from corporate finance? Review case exhibits 6A, 6B, and 6C as you answer this question.
- 2) According to Bill Young and his team, when should BP Amoco use project finance?
- 3) How and why does project finance create value? Hint: Think in terms of market imperfections. What are the costs associated with taxes, financial distress, information, incentives conflicts (agency), transaction, etc., and how does project finance increase or decrease the costs associated with these imperfections.
- 4) Do you agree with the recommended policy? Which parts? Is anything missing?
- 5) Study Exhibit 7. How is project finance like holding a portfolio of call options on project assets? How is corporate finance like holding a call option on a portfolio of assets?