

# Faustmann and the Alternative Test Approach

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The Faustmann approach to forest valuation, as all great classic piece of work, stays relevant in our time as it was in the mid of the nineteen century. This is true in forestry as in other sectors of the economy where the cash flow analysis to prepare private or public investments is still today the standard by which the efficiency of public and private projects, programmes, and policies is estimated.

To the extent that social and ecological aspects are taken into consideration to identify the investments and if necessary are included in the cash flows, this approach duly incorporates the concerns of sustainable forestry.

The important difference of today's decision in forest investments when compared to the mid nineteen century is that our biophysical and socio-economic context changes much more rapidly. A simple periodic revision of the cash flow estimates to manage the forest using the Abandonment Test was proposed by Harou, 1985<sup>6</sup> and Harou and Chin-Long Zheng 1985<sup>7</sup>. It can be used in both a deterministic and stochastic analysis of the forest cash flows and it will lower the risk inherent to the investment when compared with a purely static Faustmann analysis.

Some of today's contexts in which the Abandonment Test combined with Faustmann cash flow analysis is particularly relevant will be illustrated from cases in North America, Europe and Asia.

6 "Including Feedback Mechanisms into Forestry Decisionmaking." P. A. Harou. 1985. Canadian Journal of Forest Research 16(31):580-584.

7 "Management ' by Feedbacks, " P. A. Harou and Ch. Zheng (original in Japanese). 1985. Journal of Forest Planning Study 60 (6-15):71-73.

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