

The main purpose of the study is to get to know the application of the real option theory in capital budgeting process by Indonesian chemical companies and the use of real option theory to hedge against the exchange rates' fluctuation. Is the real option theory already applied in the practical world? Or it's just the theoretical approach that cannot or hard to apply? And if it is already apply, how is it works to hedge against the exchange rates' fluctuation?

The study of this thesis was written using several sources of data and small research of the literature review, gathering data from the text books and the internet websites; conduct a short interview and deliver a questionnaire to the CFOs of PT. PUSRI Indonesia as a complementary source of this thesis; and then comparing between the theoretical findings that gather from the literature review, and the practical point of view that gather from the interview and questionnaire.

The finding is that the CFO of Indonesian companies have not applied the real option theory in capital budgeting process. And surprisingly, a big company such PT. PUSRI does not hedge against the exchange rates' fluctuation, which in the future will be very dangerous for the company's cash flows. Hedging against the exchange rate exposure is very important.

The real option theory is a good tool to hedge against the exchange rates' fluctuation; this approach is really good at dealing with the uncertainty. So it is better for the Indonesian companies to try to apply the real option theory in the capital budgeting process to hedge against the exchange rates' fluctuation.