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# Valuation of Callable Warrants

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## Abstract

A simple valuation model for callable warrants is derived and tested. The model is expressed in closed form except for one term which can be evaluated numerically. Predictions of 78 warrant prices are compared to market prices and the average error is -.224 percent. By contrast, the Black-Scholes model applied to the same warrants produces an average error of 31.44 percent. Thus the callability feature cannot safely be ignored in determining warrant values.

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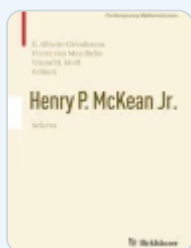
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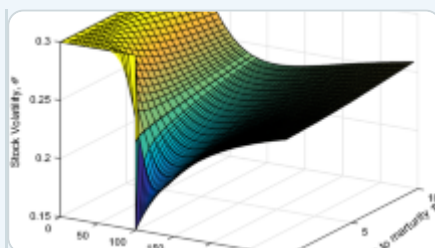
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