# Economics of Automobile Leasing: The Call Option Value

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# Abstract

Previous analyses of the automobile lease versus purchase decision have ignored the value of the call option embedded in closed-end leases with guaranteed buy back provisions. This paper shows that ignoring the value of this call option results in a bias against leasing in the lease versus purchase decision. Supporting evidence is provided by an empirical model of automobile lease rates.

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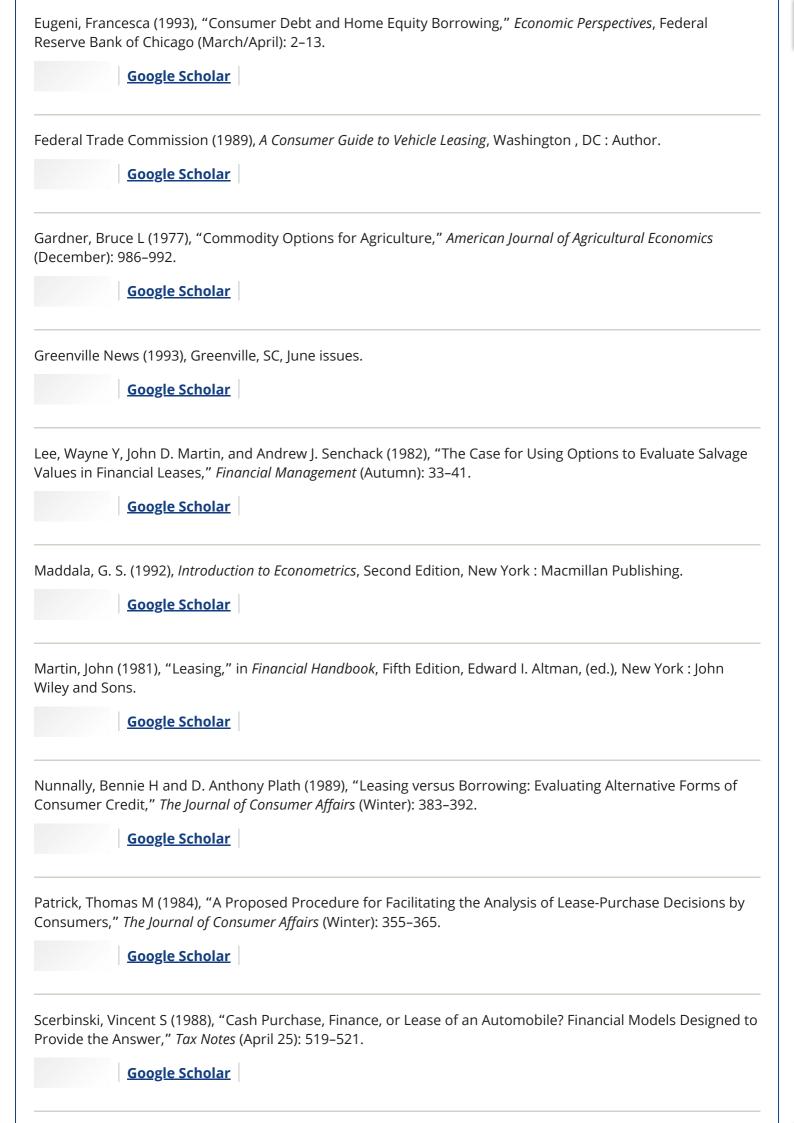
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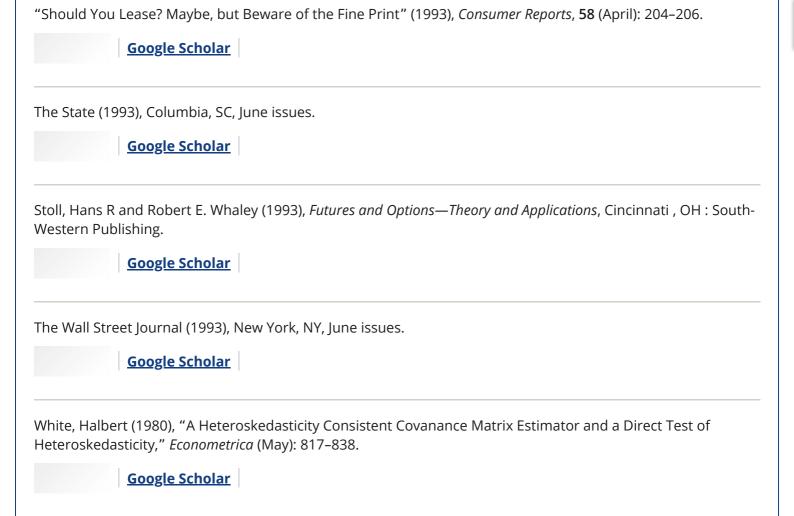
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