

Economics of Automobile Leasing: The Call Option Value

STEPHEN E. MILLER

First published: Summer 1995

<https://doi.org/10.1111/j.1745-6606.1995.tb00045.x>

The helpful comments of Kandice Kahl, Al Tinsley, Gary Wells, and the *Journal* editor and reviewers are appreciated.

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.

REFERENCES

Aitchison, J. and J. A. C. Brown (1957), *The Lognormal Distribution*, London : Cambridge University Press.

| [Google Scholar](#) |

Bierman, Harold Jr (1981), "Capital Budgeting," in *Financial Handbook*, Fifth Edition, Edward I. Altman, (ed.), New York : John Wiley and Sons.

| [Google Scholar](#) |

Copeland, Thomas E and J. Fred Weston (1982), "A Note on the Evaluation of Cancellable Operating Leases," *Financial Management* (Summer): 60-67.

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#).

[Manage Preferences](#)

[Accept All](#)

[Reject Non-Essential](#)

Das, Chandrasekhar (1983), "Inventory Control for Lognormal Demand," *Computers and Operations Research* (3): 267-276.

| [Google Scholar](#) |

Eugenio, Francesca (1993), "Consumer Debt and Home Equity Borrowing," *Economic Perspectives*, Federal Reserve Bank of Chicago (March/April): 2-13.

| [Google Scholar](#) |

Federal Trade Commission (1989), *A Consumer Guide to Vehicle Leasing*, Washington, DC : Author.

| [Google Scholar](#) |

Gardner, Bruce L (1977), "Commodity Options for Agriculture," *American Journal of Agricultural Economics* (December): 986-992.

| [Google Scholar](#) |

Greenville News (1993), Greenville, SC, June issues.

| [Google Scholar](#) |

Lee, Wayne Y, John D. Martin, and Andrew J. Senchack (1982), "The Case for Using Options to Evaluate Salvage Values in Financial Leases," *Financial Management* (Autumn): 33-41.

| [Google Scholar](#) |

Maddala, G. S. (1992), *Introduction to Econometrics*, Second Edition, New York : Macmillan Publishing.

| [Google Scholar](#) |

Martin, John (1981), "Leasing," in *Financial Handbook*, Fifth Edition, Edward I. Altman, (ed.), New York : John Wiley and Sons.

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

[Manage Preferences](#)

[Accept All](#)

[Reject Non-Essential](#)

Patrick, Thomas M (1984), "A Proposed Procedure for Facilitating the Analysis of Lease-Purchase Decisions by Consumers," *The Journal of Consumer Affairs* (Winter): 355-365.

| [Google Scholar](#) |

Scerbinski, Vincent S (1988), "Cash Purchase, Finance, or Lease of an Automobile? Financial Models Designed to Provide the Answer," *Tax Notes* (April 25): 519-521.

| [Google Scholar](#) |

"Should You Lease? Maybe, but Beware of the Fine Print" (1993), *Consumer Reports*, 58 (April): 204-206.

| [Google Scholar](#) |

The State (1993), Columbia, SC, June issues.

| [Google Scholar](#) |

Stoll, Hans R and Robert E. Whaley (1993), *Futures and Options—Theory and Applications*, Cincinnati , OH : South-Western Publishing.

| [Google Scholar](#) |

The Wall Street Journal (1993), New York, NY, June issues.

| [Google Scholar](#) |

White, Halbert (1980), "A Heteroskedasticity Consistent Covariance Matrix Estimator and a Direct Test of Heteroskedasticity," *Econometrica* (May): 817-838.

| [Google Scholar](#) |

Citing Literature



This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

[Manage Preferences](#)

[Accept All](#)

[Reject Non-Essential](#)



HELP & SUPPORT

Contact Us
Training and Support
DMCA & Reporting Piracy
Sitemap

OPPORTUNITIES

Subscription Agents
Advertisers & Corporate Partners

CONNECT WITH WILEY

The Wiley Network
Wiley Press Room

Copyright © 1999-2026 John Wiley & Sons, Inc or related companies. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.

WILEY

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

[Manage Preferences](#)

[Accept All](#)

[Reject Non-Essential](#)