Economics of Automobile Leasing: The Call Option Value

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First published: Summer 1995

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

Citations: 13

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.

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