

# 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>

Citations: 12

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.

[Google Scholar](#)

Crawford, Peggy J, Charles P. Harper, and John J. McConnell (1981), "Further Evidence on the Terms of Financial Leases," *Financial Management* (Autumn): 7-14.

[Google Scholar](#)

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

[Google Scholar](#)

Eugeni, 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.

[Google Scholar](#)

---

Nunnally, Bennie H and D. Anthony Plath (1989), "Leasing versus Borrowing: Evaluating Alternative Forms of Consumer Credit," *The Journal of Consumer Affairs* (Winter): 383-392.

[Google Scholar](#)

---

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



[Download PDF](#)

### ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

[Developing World Access](#)

### HELP & SUPPORT

[Contact Us](#)

[Training and Support](#)

[DMCA & Reporting Piracy](#)

### OPPORTUNITIES

[Subscription Agents](#)

[Advertisers & Corporate Partners](#)

**CONNECT WITH WILEY**

The Wiley Network  
Wiley Press Room

Copyright © 1999-2024 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**