The Engineering Economist ›
A Journal Devoted to the Problems of Capital Investment
Volume 47, 2002 - Issue 2

ARTICELS

Valuing Lease Contracts Under Incomplete Information: A Real-Options Approach

MONDHER BELLALAH, THEMA & CEREG

Pages 194-212 | Published online: 31 May 2007

Cite this article https://doi.org/10.1080/00137910208965032

ABSTRACT

This paper presents a unified framework for the pricing of leasing contracts in an option framework within incomplete information. Incomplete information is defined in the context of Merton's (1987) simple model of capital market equilibrium with incomplete information. Information costs are also used in Bellalah (1999, 2001, 2002) models for the pricing of derivative assets in the presence of shadow costs of incomplete information. The model is based on the main concepts behind interest rate models. It can be used to determine equilibrium lease rates for different types of leases such as forward leases, leases with options to renew or cancel, lease insurance contracts, adjustable rate leases, and leases with payments contingent on asset usage.