Construction Management and Economics ›
Volume 19, 2001 - Issue 6

Original Articles

The guaranteed maximum price contract as call option

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Pages 563-567 | Published online: 21 Oct 2010
Download citation https://doi.org/10.1080/01446190110049848

Abstract

Due to increasing constraints on project duration and costs, together with the increasing implication of contractors in the design process, guaranteed maximum price (GMP) contracts are likely to become common in the future. This paper explores a new approach for evaluating the remuneration of the contractor. The GMP contract is considered as a hybrid arrangement consisting of a cost reimbursement contract and a call option on a fixed price contract. The option pricing theory is used as a conceptual framework to assess the GMP contract and the contractors' remuneration.

Keywords: Guaranteed Maximum Price Fixed Price Cost Reimbursement Call Option

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