



The Leasing Option Premium

Alex Tajirian

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The option-to-buy component of a lease may be worth more than what an option pricing formula predicts. A recent study by Wolf et al. finds new evidence of an “endowment effect” in which the possession of an item increases the value a person places on it. They find that the longer people examined the item, the more they were prepared to pay for it.

In the standard demonstration of the endowment effect, a person’s value for an item increases once he or she owns it. One explanation of this effect is that ownership causes increased attachment to the item, which, in turn increases its subjective value.

Applying this principal to domain name leases suggests that there is an additional incentive for owners to lease their domain names. Moreover, this incentive underscores the imperative of including flexibility options in the domain name pricing model, as noted by Tajirian (2005).

Reference:

1. James R. Wolf, Hal R. Arkes, and Waleed A. Muhanna (2005), "Is Overbidding in Online Auctions the Result of a Pseudo-Endowment Effect?". Available online at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=735464.
2. Alex Tajirian (2005), “[Valuing Domain Names: Methodology](#),” DomainMart.

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