

Investment Decision in a New Credit Score System

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This article provides a framework to decide upon the timing to purchase a new Credit Score System. This is an irreversible investment hardly useful anywhere else, and can always postpone its purchase. Therefore the investment in a new CSS is financially similar to a call option, whereby the investment is the exercise price and the option premium is the value to postpone the investment. We use the real option modeling to decide on the timing to purchase a new system. The results suggest that only the cost of a new system and its average time decay are relevant.