

Economics 613: Macroeconomics I

Fall 2006

Cornell University

Problem Set #4

Due: Monday, September 18, 2006

Capital Valuation

Assume that the interest rate is constant. In particular, $r(t) = 0.04$, for all t .
The "one hoss shay" yields a stream of income

$$B(t) = \$15 \text{ million per annum, for } 0 \leq t \leq 10.$$

How much should one pay for this asset at date t ?

Does straight-line accounting depreciation overstate or understate the true economic depreciation of this asset?