

Economics 614: Macroeconomics II

Spring 2006

Cornell University

Problem Set #3

Due: Monday, February 6, 2006

1 Capital Valuation.

Assume that the interest is constant. In particular, $r(t) = 0.02$.

The "one-hose shay" yields a stream of income

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

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

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