

Re: Fine work by our new Nobelist

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On Fri, 15 Oct 2004 19:23:21 GMT, Igor <jjweatherby@houston.rr.com> wrote:

>*sinister wrote:*

>

>> *I assume you mean like intellectual "property rights".*

>>

>> *I'm not sure what Prescott and his coauthor were referring to. Maybe they*

>> *estimated the value of such assets by some indirect method.*

>

>*Reading the paper before making comments would help here.*

As long as one can manage the required suspension of disbelief....

>*The fundamental value is clearly defined as equal to (1 - tax on
>distributions) (resource cost of tangible capital) + (1 - tax on
>profits) (resource cost on intangible capital). This is a statement on
>returns.*

More accurately, this formula states that the value of a company does not depend in any way on how profitable it is or is expected to be, but only on how much money it has spent, and the tax rates. So as long as there is no tax on profits, \$1G spent acquiring perfectly useless intangibles is considered to make the company worth \$1G.

It is hardly surprising that such a "measurement" of value would find companies to be undervalued, in 1929 or any other year.

>*The tax rates effect prices on capital the distribution rate is
>used because the return to capital is taxed not the buying of capital.
>Corporate profit taxes are used because they effect the price of
>intangible assets. Investment in intangibles are an expense and reduce
>corporate profits meaning less tax.*

So, because a company that always loses money pays no tax, it is considered to be more valuable than a company that always makes money and thus does pay tax. Check.

>The valuation is the price of its
>tangible assets and intangible assets.

IOW, the assumption is that corporate value does not depend on how skillfully the company's assets are deployed, or how profitable they are made, but only on how much they cost to acquire and how much any returns are taxed.

>Intangibles are R&D and the productivity gained for R&D. In effect a
>stock of knowledge which can be represented by total factor
>productivity.

Productivity measured how?

>Intangible assets are not explained well. I assume it is
>because Prescott wrongly assumes that readers will be familiar with the
>literature on endogenous technical change and growth.

OTC, I assume it is because Prescott assumes readers will not consider it possible that he could actually mean what he is saying.

>The valuation of intangibles is estimated from profits. Profits are
>equal to (the interest rate) (tangible capital) + (the interest rate –
>growth trend of output) (intangible capital).

This formula means that if output is declining, profits are higher, and maximum profitability is achieved if all output is eliminated altogether, as quickly as possible. And in any case, profits are defined principally by how much money the company has spent, not in the conventional way by how much it has left over after subtracting what it has spent from its revenues.

>The derivation of this
>given. The point is if you know the interest rate, the growth rate of
>output, and the value of tangible capital, and profits you can solve the
>equation for intangible assets.

Yes, and profits can only be negative if output is growing faster than the interest rate!

>The Fisher statement dealt only with price and earnings ratio. The paper
>supports low price to earning ratios in 1929. The estimates show that
>fundamental values of corporations were much higher than actual after
>tax earnings.

Yes. In particular, the negative output growth of 1930–32 shows that, according to the formula, profits must have been soaring....

Are you sure you have reported the contents of this paper accurately?
It makes the fumbles Vienneau identifies look like Nobel-quality work.

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>>>*Same thing the dot.coms were selling. If*

>>

>> *Certainly the dot.coms were marketing themselves based on some sort of*

>> *intangible assets. But it's not clear that those "assets" were truly*

>> *connected to rent collection.*

>

>*The intangible assets were not what dot.coms market under.*

That is of course false.

>*They actually*

>*had few intangible assets.*

ROTFL!!! Compared to what, their tangible assets?

>*The dot.com crash can be actually thought of*

>*failed R&D.*

Nonsense. It was a failed (and absurd) business model.

>*The problem with the dot.com is*

>*the people believed the value of intangible assets was much higher than*

>*what it really was.*

And what of the assumption described above, that intangibles are worth whatever was paid for them?

— Roy L