Re: Fine work by our new Nobelist

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royls_at_telus.net
Date: 10/16/04

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Date: Sat, 16 Oct 2004 23:23:02 GMT
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On Sat, 16 Oct 2004 01:20:09 GMT, Igor <jjweatherby@houston.rr.com>
wrote:

>royls@telus.net wrote:
>> 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.
>
>Wrong it is the valuation of assets not how much is currently spent.

OK, now you are lying about what I said. That's normal and expected.
You said the valuation was based on resource costs, not market value
and not current spending (look up about 15 lines. Yep. There it
is.). I repeated that accurately, and identified its inescapable
logical implications.

>Acquiring useless intangibles do not add to the intangible stock. They
>have to be innovations. Why would a company acquire useless intangibles
>on purpose it would lower p>not increase and the rest of the economy is outpacing your technology.

Whereas if you would only spend money on capital, you would be
guaranteed to be making profits and increasing the value of your
company. That's what I said.

>You would lose market share and your profits would drop.

Profits don't depend on market share. They depend on keeping expenses
lower than revenue. A good way to increase market share is to be
willing to sell at a loss. That sounds profitable, doesn't it?

>Which is exactly what this equation says.

I can see very well what the equation says. I am identifying the fact
that what it says is nonsensical.

>Profits would only be negative if the
>loss on the return to intangibles was greater than the return to
>tangible capital. It is ((1−tax T) (i) (tangibles)) + (1− tax I)(i−g)
>(intangibles) so as long as the return on tangibles is greater than the
>loss on intangibles profits increase.

Regardless of the fact that firms are spending all their money on
assets that do not add to productivity, and are selling their products
at a loss in order to gain market share and thus profitability....

>Note again the growth trend is
>economy wide not firm level.

Correct. Which still means that profits can _only_ be negative if
total output is growing faster than the interest rate. Exactly as I
said, and you denied.

>>>The Fisher statement dealt only with price and earnings ratio. The paper
>>>supports low price to earning ratios in 1929. The estimates show that
>>>fundemental 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....
>
>No there is no indication of that.

Yes, of course there is. It is mathematically inescapable.

>It depends on what happened to
>intangible assets. These can decrease are stay constant.

Unless firms spend money on them.

>The low growth
>rates meant higher returns on intangibles.

Despite reduced profits...

>However, lower investment
>would mean higher deprication and the return on capital dropping.

More gibberish.

>It also depends on the interest rate.

Real interest rates were at historic highs all three of those years.

>> Are you sure you have reported the contents of this paper accurately?
>> It makes the fumbles Vienneau identifies look like Nobel−quality work.
>
>I reported it correctly you misinterperted what it said.

No, I stated its exact meaning.

>Your interpertation does not follow from the profit equation.

Yes, in fact, it does.

>Why don't you read the paper and see if it is correct instead of
>commenting on something you haven't read.

I'm assuming you a