

Econ. 117, Current

1. Which system would let you extend water service furthest: AC ^{postage-stamp} pricing; MC p.s. pricing; AC graduated pricing; or MC grad. pricing? Explain yr. answer.
2. Exempting buildings from taxes would ~~encourage~~ encourage durability and thereby reduce employment of labor. What are the counter-arguments?
3. Derive the conventional formula for tax capitalization, $V = \frac{a}{i + t}$.
Mention 2 important qualifications
4. ~~Does bond speculation encourage~~
What kinds of investment are encouraged by the prospect of a rise in land prices?
5. What is mup^* of labor? How wd. you apply the concept to land?
What is its normative value?
6. What is the major issue between yr. instructor & his textbook in re. rules of invmt. efficiency? In re MC pricing?

Last week. Review & oral grilling. Problems? Sample questions.

1. M.C. p.s. pricing? No, a.c. p.s. pricing, bcs. w. p.s. pricing you are in Δ g costs.

Either cd. be right, depends on whether we ~~can~~ assume Δ g involves expanding service area.

2. Bldgs. not taxed; counter arg.
Basic premise: freq. renewal is sub. of labor for land & capt.

a. Untax next bldg, Δ l.v.; now, defer taxes by not renewing

b. avoid Δ g social overhead

c. Δ capital

d. Δ fiscal leverage; improve allocation

3. Derive tax capn. form.

Qualify.

4. Antiod. Δ P, how affect bldg., allocn.

a. Δ leverage to i.v., drive apart, some held idle, some intensified

b. Encourage spec. bldrs. & home buyers, thus goose up demand, some places.

By those in a position to reap greater s.v. Δ s than others, by bldg. up an area, etc. ...

c. P.w., developmental invest.

1. To cope w. Δ P

2. Forced, by sprawl

d. Temporary bldgs.

1. Antio. change of use ... Elg effect

2. Achieved hi l.v. require faster renewal. Not neclg. More capt. input probly by higher Co. same t.

5. MNRP of land
Normative value, ^{& practical use,} pot. & social

Mention rising internal xptn costs

(Moral: if they have something to read, they get it better.)

6. Issues betw. Instn. & his text.

a. Inv. effnc.

b. MC pricing

Table 1 A: Table of land values as determined by combined interest rates and tax rates, with annual net rent equal to \$1.

$$V = \frac{1}{i + t}$$

$i \rightarrow$	.02	.04	.08
$t \downarrow$	<u>Land Values in \$</u>		
.00	50	25	12
.01	33	20	11
.02	25	17	10
.03	20	14	9.09
.04	17	12	8.33
.05	14	11	7.69
.10	8.33	7.14	5.56
.15	5.88	5.26	4.35
.20	4.55	4.17	3.57
1.00	.98	.96	.93

Table 1 B: Bids for land as determined by combined interest rates, tax rates, and marginal imputable rents. The high bid is circled at each tax rate.

$$\text{Bid} = \frac{\text{Rent}}{i + t}$$

$i \rightarrow$ Rent $\rightarrow$	.02 \$3	.04 \$4	.08 \$5
$t \downarrow$	<u>Bids for Land in \$</u>		
.00	150	100	62
.01	100	80	56
.02	75	68	50
.03	60	56	45
.04	51	50	42
.05	42	44	38
.10	25	29	28
.15	18	21	22
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1.00	2.94	3.84	4.65

Renne, E & W.

Loose ends.

- Assessor rarely rules his judgment for mkt., but follows mkt.
- Taxes never fully capd. bcs. of reallocation effect.
- As Δt brings down price, eases int. burden. Ultly. replaces int. burden w. Tax burden.

For smaller Δ taxes, who gains, who loses? If $\% \Delta(t+i) > |\% \Delta P|$,
 you must contrast, & v.v. So neutral i is where $\frac{\Delta t}{t_0 + i} = \frac{-\Delta P}{P}$

Solving for neutral i , $\equiv k$, $k = \frac{\Delta t \cdot P}{\Delta P} - t_0$

Give numerical e.g.

Now go to next page.

Define Rent.

Temporally, have seen we must spread out evenly over integral time - lump or
 spread, to get ave.

Also spatially.

But both cases, inqul. is diff.

also, both cases, inqul. differs from other inputs, bcs. not homogeneous.

Last acre is inqul, not just in Q, but location (or time, for last acre-yr.)

also, treat auxiliary input.

MC pricing, deficit. If none, wd. be good to invest one. Effect of land taxes on land devmt.

Sprawl. A cost.

Why? Differential capn.

Egm. where MR of land = MC = $P \cdot i$

 MC = P_j , where $j = \frac{\Delta P}{P_n - P_0}$. No change

Effect of ΔP : $MR = P_i - \Delta P$, and P is higher. Driven curves upward (i's some intermediate watershed curve not affected, where ~~$\frac{\Delta P}{P_n - P_0}$~~ $\Delta P = (P_n - P_0) \cdot i$

Lower curves hit 0, land held idle.

Effect of tax -- instead of magnifying i , swamps it. Converges curves.
 $MR = P_i - \Delta P + P_t$

Pass out mimeo sheets.

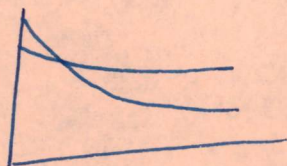


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Table 1 B: Bids for land as determined by combined interest rates, tax rates, and marginal imputable rents. The high bid is circled at each tax rate.

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