

Net Investment in Farm Tractors: An Econometric Analysis

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Abstract

A wide range of assumptions about the capital deterioration and marginal factor cost of tractors has been made in previous studies. This study develops a measure of the implicit rental price of tractors which accounts for the capital structure used by farmers, the capacity depreciation of tractors, and income tax considerations. Estimates of net investment models for alternative capacity depreciation patterns are compared to those suggested by engineering considerations. The results show that the frequently used geometric decay pattern does the poorest job of explaining annual real net investment in farm tractors.

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