

[Home](#) > [Journal of Regulatory Economics](#) > [Article](#)

An expository note on depreciation and profitability under rate-of-return regulation

Published: September 1989

Volume 1, pages 293–298, (1989) [Cite this article](#)

[Save article](#) [View saved research](#) >



[Journal of Regulatory Economics](#)

[Aims and scope](#) →

[Submit manuscript](#) →

[Richard Schmalensee](#)¹

198 Accesses 46 Citations 6 Altmetric [Explore all metrics](#) →

Abstract

This note provides a simple, general proof that if a regulated firm is allowed to earn its actual (nominal) one-period cost of capital on the depreciated original cost of its investments, and if actual earnings equal allowed earnings, then the net present value of all investments is zero for any method of computing depreciation. Some implications and extensions of this Invariance Proposition are discussed.

This is a preview of subscription content, [log in via an institution](#) to check access.

[Access this article](#)

Subscribe and save

✓ Springer+

from €37.37 /Month

- Starting from 10 chapters or articles per month
- Access and download chapters and articles from more than 300k books and 2,500 journals
- Cancel anytime

[View plans](#) →

Buy Now

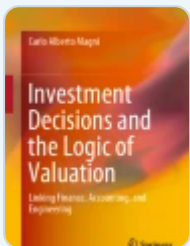
[Buy article PDF 39,95 €](#)

Price includes VAT (Poland)

Instant access to the full article PDF.

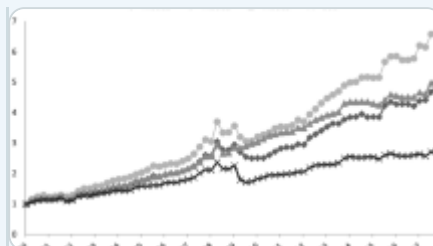
[Institutional subscriptions](#) →

Similar content being viewed by others



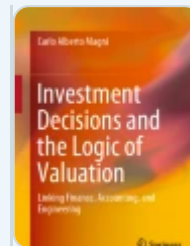
Internal Rate of Return

Chapter | © 2020



Investor learning, earnings signals, and stock returns

Article | 11 March 2019



Average Internal Rate of Return

Chapter | © 2020

Explore related subjects

Discover the latest articles, books and news in related subjects, suggested using machine learning.

[European Economic Law](#)

[Financial Law](#)

[Formal Reasoning](#)

References

Brealey, R., and S. Myers. 1984. *Principles of Corporate Finance*, 2nd Ed. New York: McGraw-Hill.

[Google Scholar](#)

Fisher, F.M., and J.J. McGowan. 1983. "On the Misuse of Accounting Rates of Return to Infer Monopoly Profits." *American Economic Review* 73 (March): 82-97.

[Google Scholar](#)

Greenwald, B.T. 1984. "Rate Base Selection and the Structure of Regulation." *Rand Journal of Economics* 15 (Spring): 85-95.

[Google Scholar](#)

Hotelling, H. 1925. "A General Mathematical Theory of Depreciation." *Journal of the American Statistical Association* 20 (September): 340-53.

[Google Scholar](#)

Kahn, A.E., and W.B. Shew. 1987. "Current Issues in Telecommunications Regulation: Pricing." *Yale Journal Regulation* 4 (Spring): 191-256.

[Google Scholar](#)

Kolbe, A.L., W.B. Tye, and M.A. Baker. 1984. "Conditions for Investor and Customer Indifference to Transitions among Regulatory Treatments of Deferred Income Taxes." *Rand Journal of Economics* 15 (Autumn): 434-446.

[Google Scholar](#)

Linhart, P.B. 1970. "Some Analytical Results on Tax Depreciation." *Bell Journal of Economics* 1 (Spring): 82-112.

[Google Scholar](#)

Myers, S.C. 1972. "The Application of Finance Theory to Public Utility Rate Cases." *Bell Journal of Economics* 3 (Spring): 58-97.

[Google Scholar](#)

Myers, S.C., A.L. Kolbe, and W.B. Tye. 1985. "Inflation and Rate of Return Regulation." *Resear in Transportation Economics* 2:83-119.

[Google Scholar](#)

Navarro, P., B.C. Peterson, and T.R. Stauffer. 1981. "A Critical Comparison of Utility-Type Ratemaking Methodologies in Oil Pipeline Regulation." *Bell Journal of Economics* 12 (Autumn): 392-412.

[Google Scholar](#)

Solomon, E. "Alternative Rate of Return Concepts and Their Implications for Utility Regulation." *Bell Journal of Economics* 1 (Spring): 65-81.

Stauffer, T.R. 1971. "The Measurement of Corporate Rates of Return: A Generalized Formulation." *Bell Journal of Economics* 2 (Autumn): 434-469.

[Google Scholar](#)

Author information

Authors and Affiliations

Rights and permissions

[Reprints and permissions](#)

About this article

Cite this article

Schmalensee, R. An expository note on depreciation and profitability under rate-of-return regulation. *J Regul Econ* 1, 293–298 (1989). <https://doi.org/10.1007/BF00134962>

Issue date

September 1989

DOI

<https://doi.org/10.1007/BF00134962>

Keywords

[Public Finance](#)

[Industrial Organization](#)

[General Proof](#)

[Actual Earning](#)

[Original Cost](#)

Search

Search by keyword or author



Navigation

Find a journal

Publish with us

Track your research

