

largest and most successful, and located in the better regions, and so we assume a rate of return of 6 per cent to apply.

Treatment of the returns on stock poses severe problems. The *ex post* rate of return has been extremely high in recent years because of the doubling of common stock prices. If we considered all capital gains to be income, the annual rate of return of recent years would exceed 15 per cent. But in making decisions, individuals did not fully anticipate these capital gains, nor would it be realistic to suppose that this rate will continue indefinitely. Yet, it also would be unrealistic to exclude all capital gains, since the high rate of income retention of corporations makes likely the continued growth of the value of stocks. To take account of this factor, we assume that the yield on stocks is equal to dividends plus retained earnings. In 1955, the average dividend yield on all common stock was 3.93 per cent; since only 50 per cent of earnings was paid out, we assume a total rate of return of 8 per cent.

Income from rent, interest, and trusts represents relatively small shares of total property income. For the rate of return on real estate, we use two sources. The first is profits of corporations whose main business is the holding of real estate. This has been at the rate of 12 per cent before taxes,²³ a figure which primarily represents commercial property and apartment houses. Second, for residential property as a whole, some unpublished investigations of R. Muth suggest an average rate of 5.5 per cent.²⁴ Since commercial property and residential property of above average profitability are likely to be held by individuals in the upper-income brackets, we assume that rental income is earned at a rate of return of 8 per cent. For interest, a rate of 3 per cent is assumed. This is slightly higher than the rates of 2.8 to 2.9 per cent which prevailed on government bonds in 1955, but lower than the average yield of 3.25 per cent on corporate bonds.²⁵ Finally, we assign an interest rate to income from trusts. Since the trusts represent various combinations of other assets, we simply assume that their rate of

²³ U. S. Treasury Department, Internal Revenue Service, *Statistics of Income for 1951* (Washington, D. C.: Government Printing Office, 1955), and *Statistics of Income for 1952*, *op. cit.*

²⁴ For an abstract, see R. F. Muth, "The Demand for Non-Farm Housing," *Econometrica*, April 1957, p. 365.

²⁵ Board of Governors, Federal Reserve System, *Federal Reserve Bulletin*, May 1956, p. 477.