

APPENDIX 8.2. DISTRIBUTION FOR DISCOUNT RATES

TABLE OF CONTENTS

8.2.1	DISTRIBUTION OF NEW INSTALLATION DISCOUNT RATES	8.2-1
8.2.2	DISTRIBUTION OF REPLACEMENT DISCOUNT RATES	8.2-1

LIST OF FIGURES

Figure 8.2.1.1	Distribution of New Home Mortgage Nominal Interest Rates	8.2-1
Figure 8.2.2.1	Distribution of Second Mortgage Nominal Interest Rates	8.2-2
Figure 8.2.2.2	Distribution of Credit Card Nominal Interest Rates	8.2-3
Figure 8.2.2.3	Distribution of CD's Nominal Interest Rates	8.2-3
Figure 8.2.2.4	Distribution of T-Bill Nominal Interest Rates	8.2-4
Figure 8.2.2.5	Distribution of Corporate Bond Nominal Interest Rates	8.2-4
Figure 8.2.2.6	Distribution of S&P 500 Nominal Return Rates	8.2-5

APPENDIX 8.2. DISTRIBUTION FOR DISCOUNT RATES

8.2.1 DISTRIBUTION OF NEW INSTALLATION DISCOUNT RATES

Figure 8.2.1.1 shows the distribution of nominal interest rates for new home mortgages.¹ The real discount rate equals the nominal rate after deducting taxes (28 percent) and 1998 inflation (1.5 percent).² The median U.S. household income in 2000 was \$43,162. The marginal income tax of heads of households with this income is 27.5 percent. The Department rounded the 27.5 percent figure to 28 percent for this analysis.

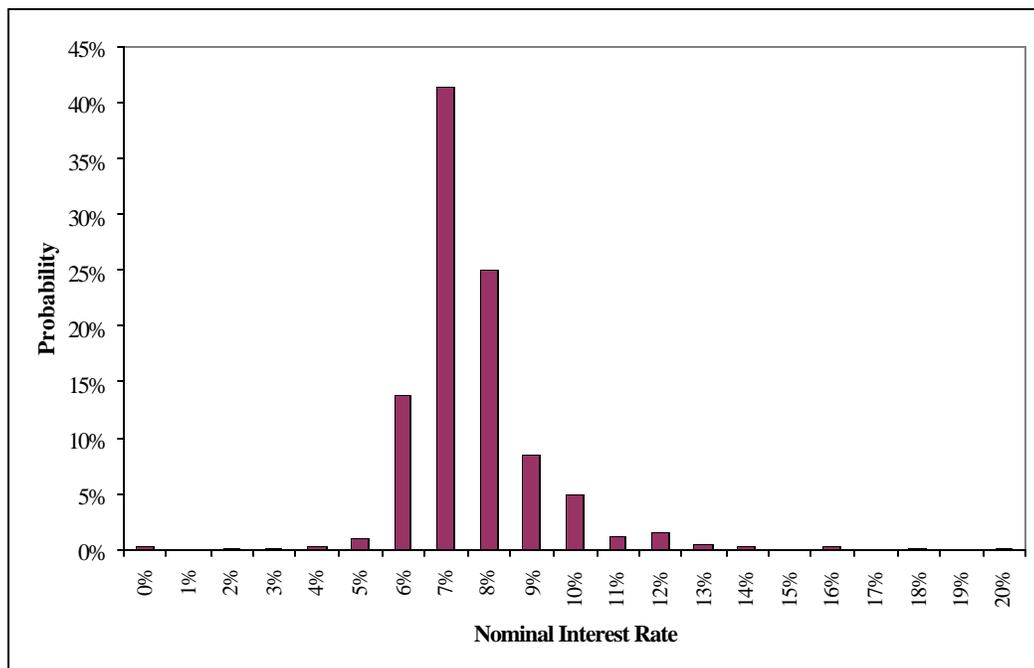


Figure 8.2.1.1 Distribution of New Home Mortgage Nominal Interest Rates

8.2.2 DISTRIBUTION OF REPLACEMENT DISCOUNT RATES

Figures 8.2.2.1 through 8.2.2.6 show the distribution of nominal interest rates for types of debt and equity used to finance replacement furnaces. These include distributions for second mortgages and credit cards,¹ certificates of deposit (CDs),³ savings bonds,⁴ and corporate bonds,⁵ stocks,⁶ and mutual funds. The real discount rate equals the nominal rate after deducting taxes (28 percent) from mortgages and 1998 inflation (1.5 percent) from the other finance methods.

The Department defines CDs returns based on returns to six-month, secondary market CDs (1977-1999). The Department defines returns to savings bonds as the returns to one-year Treasury Bills (1977-1999). The Department defines returns to corporate bonds as the returns to Moody's AAA Corporate Bonds (1977-1999). The Department derived the mutual fund interest rate data according to the average return to stocks, treasury bonds, and savings bonds.

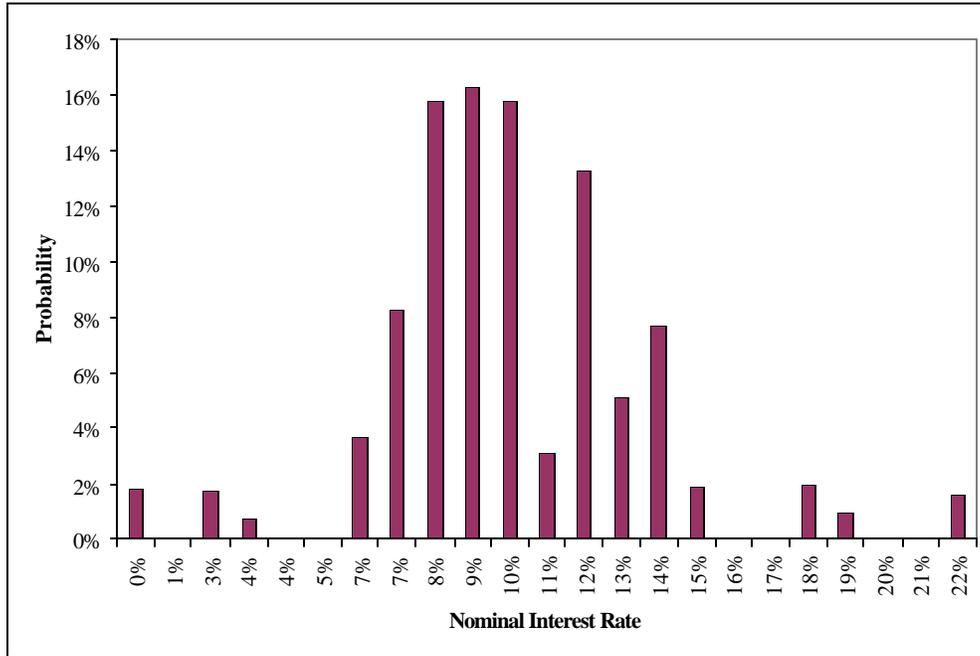


Figure 8.2.2.1 Distribution of Second Mortgage Nominal Interest Rates

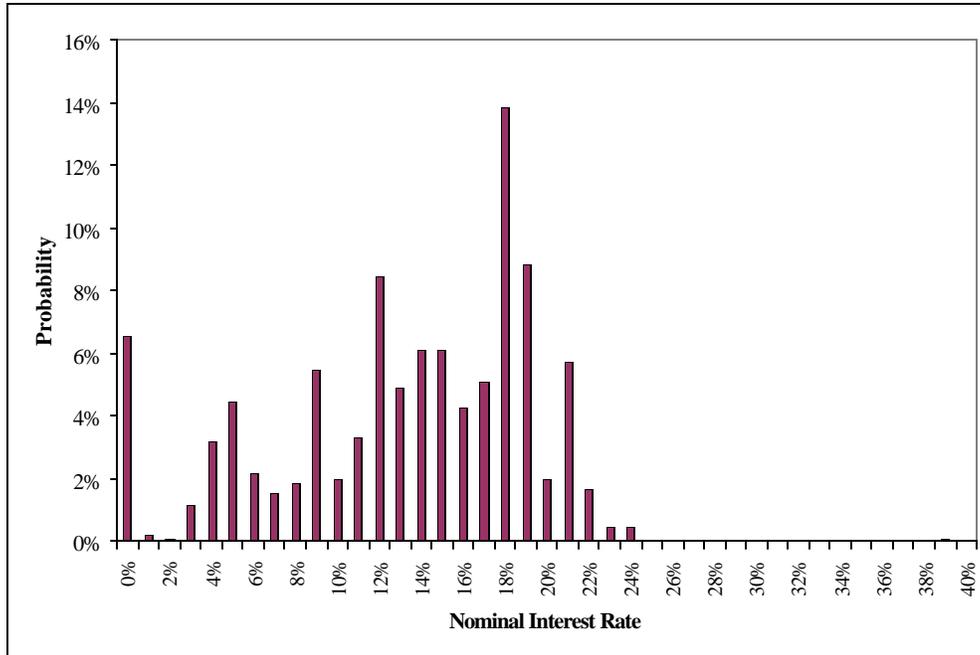


Figure 8.2.2.2 Distribution of Credit Card Nominal Interest Rates

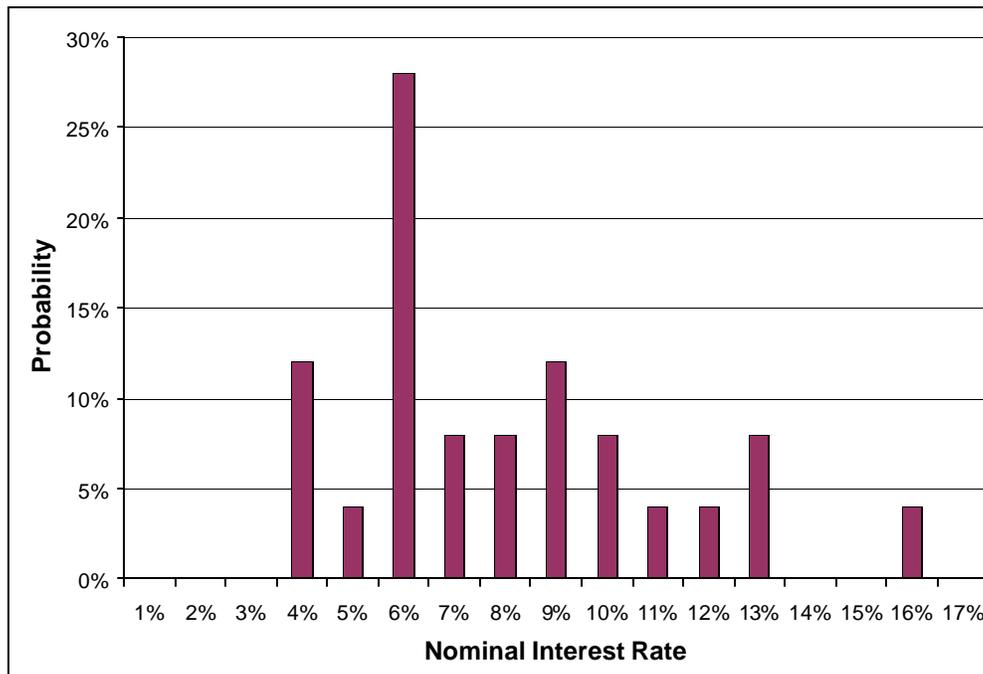


Figure 8.2.2.3 Distribution of CD's Nominal Interest Rates

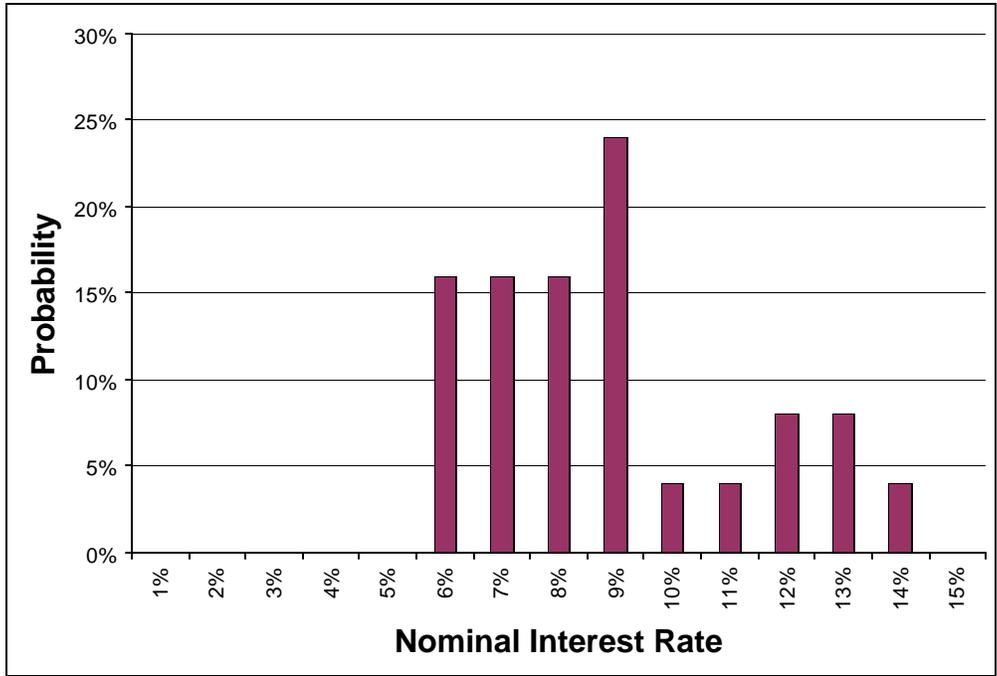


Figure 8.2.2.4 Distribution of T-Bill Nominal Interest Rates

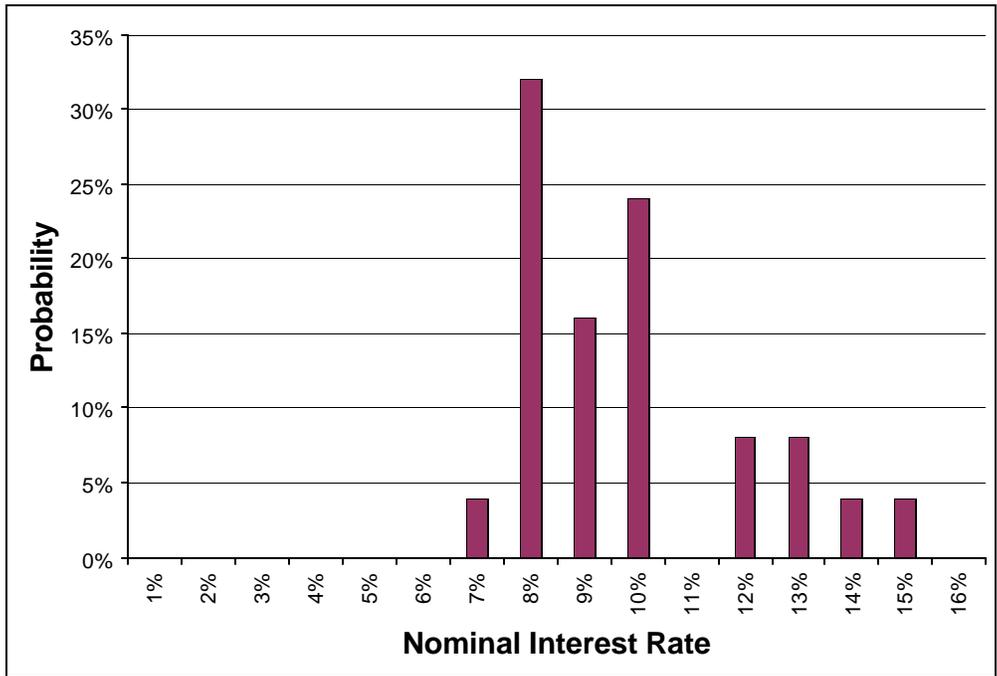


Figure 8.2.2.5 Distribution of Corporate Bond Nominal Interest Rates

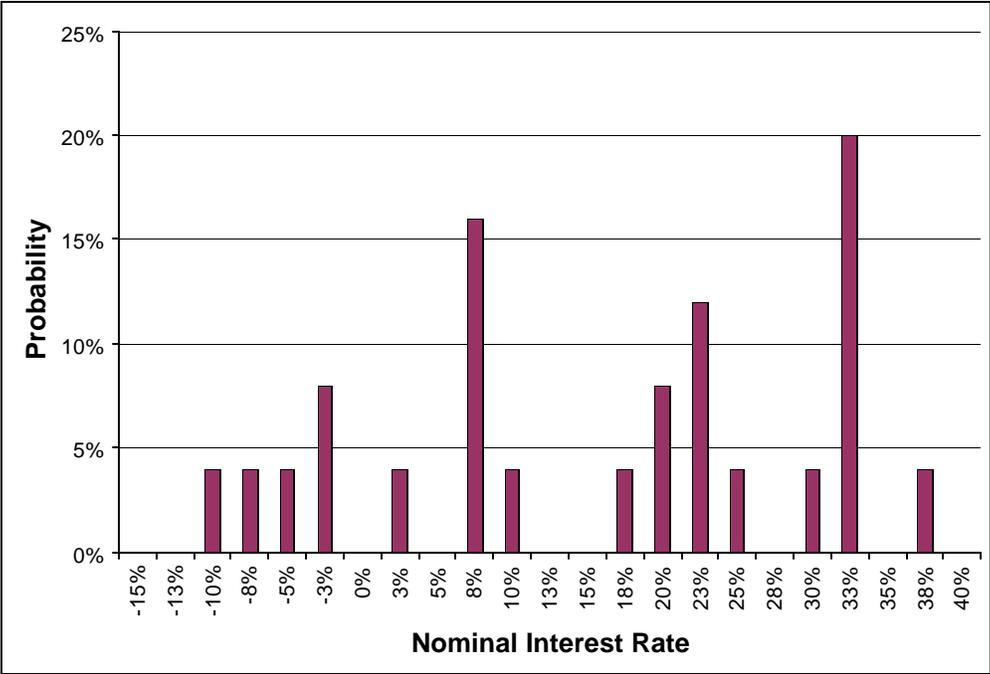


Figure 8.2.2.6 Distribution of S&P 500 Nominal Return Rates

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