

The institutions behind asset valuation

Examine how asset definitions, uncertain appraisals, and administrative incentives shape the operation of an annual wealth tax. Evaluate the book's strong valuation-state thesis through realistic design comparisons rather than treating a stated rate as a complete policy.

2 lessons · approximately 5 hours, plus multi-day practice

How to use this workbook

Read the assigned manuscript first. This workbook contains accompanying teaching and invented cases, not a revision of the source. Attempt exercises before consulting the rubrics and explanations. Written work is self-assessed or discussed with a tutor; no secure examination, academic credit or certificate is implied. Use a clearly labelled fictional case when live practice or personal disclosure would be unsuitable. Links use the course's intended publication address; for offline review, open the supplied source PDF at the full-book page numbers shown.

- Define the book's valuation-state concept.
- Distinguish price evidence from model-based value.
- Compare appraisal problems across public, private, and contingent assets.
- Assess avoidance and discretionary enforcement incentives.
- Test the two-equilibria thesis against feasible alternatives.

[Open the module and source reading links](#)

Lesson sequence

1. Valuing assets when prices are incomplete
2. Appraisal institutions, incentives, and legitimacy

Valuing assets when prices are incomplete

Allow approximately 75 minutes, plus any continuing activity.

Learning objectives

- Distinguish a quoted market price from a valuation of a particular ownership interest.
- Explain how assumptions change a private-asset tax base.
- Compare valuation problems across four complex asset classes.

Assigned source readings

Chapter 13: The Valuation State; I. Valuation is not a technical detail; it is the policy; II. Public assets are the easy corner case; III. Private businesses: the valuation war begins; A. The absence of a market price; B. Modelling is contestable; C. Valuation becomes a litigation industry; IV. Complex assets: where valuation becomes metaphysics; A. Partnership interests and carried structures; B. Venture stakes and illiquid equity; C. Real estate portfolios; D. Intellectual property and goodwill

Full-book PDF pages 182–186. Section links open the chapter at the relevant page.

Develop the argument

The tax base is an institutional choice

Chapter 13 calls the machinery needed for repeated asset appraisal a “valuation state.” This is the book’s analytical label, not the name of a specific legal regime. The opening argument shifts attention from the advertised percentage to the information needed to apply it. A rate of two percent produces no reliable liability until the assets, ownership rights, debts, valuation date, and measurement standard are defined. Annual taxation adds a repetition requirement: yesterday’s defensible appraisal may not answer this year’s question. The chapter contrasts asset valuation with taxes that use recorded flows or transactions. That contrast identifies different information problems; it does not establish that income and consumption taxes have no administrative difficulties. The useful first question is therefore operational: what exactly must be known, by whom, and at what cost, before the proposed tax can be calculated?

A price belongs to a transaction and a bundle of rights

The chapter treats liquid public securities as the comparatively easy case, then identifies qualifications. A small freely tradable shareholding, a restricted holding, and a controlling block are not identical bundles of rights. Multiplying the last quoted price by every share is a convention that may differ from the proceeds of selling a large position. Market impact, transfer restrictions, and the value of control explain why. Do not turn that observation into the opposite error of declaring public prices useless. A standardised quoted-price rule can be administratively clear even when it does not measure immediate liquidation proceeds. Analysis must specify its purpose. Is the rule estimating a hypothetical sale, ongoing ownership value, or a deliberately simplified taxable value? A disagreement about the target concept cannot be resolved merely by hiring a more accurate calculator.

Private-company valuation is a sensitivity problem

Without continuous trading, the chapter describes discounted cash flow, comparable firms, and previous transactions as estimation methods. Each method brings assumptions into view. A cash-flow forecast depends on future sales and costs; its present value depends on the discount rate and horizon. A comparison depends on which businesses are genuinely comparable and which ownership rights their prices represent. An honest disagreement is possible before anyone attempts avoidance. In an invented perpetual-cash-flow illustration, annual cash of 120,000 valued at ten percent gives 1.2 million; at twelve percent it gives one million. This simplified model omits growth and many business risks, but makes sensitivity visible. At a two-percent rate, the illustrative liabilities differ by 4,000. A useful appraisal reports the model, assumptions, range, and reason for choosing a point estimate rather than disguising uncertainty as precision.

Complex claims require different questions

The four asset classes in Section IV extend this logic. Partnership waterfalls allocate receipts in a contractual order, so the percentage owned may not equal the percentage of economic value. Venture funding prices can reflect preferred rights that ordinary shares lack. Property portfolios depend on rents, vacancy, leases, and capitalisation assumptions. Patents, brands, and goodwill depend on uncertain future income and competition. The chapter predicts recurring expert disputes across these categories. Preserve the distinction between that prediction and proof that every workable valuation rule is impossible. Students should ask whether frequency, thresholds, safe harbours, deferral, or standardisation alter the trade-off, then identify their costs. The resulting comparison is between imperfect feasible designs. Neither a dramatic asset example nor a single easy quoted security represents the entire proposed base.

Two stakes in one company

Invented for this course.

An invented tax-design team values Mira's ordinary shares and Arun's preferred shares in an unlisted sensor company. A recent financing round priced the preferred shares at a headline company value of 12 million.

1. List the rights: liquidation preference, voting control, transfer restrictions, and any conversion terms. Equal share counts do not settle economic equivalence.
2. Compare the funding-round inference with a cash-flow model and a comparable-company estimate; keep their assumptions separate.
3. Report a valuation interval for each stake rather than assigning the preferred price automatically to ordinary shares.
4. Explain how a uniform rule might improve predictability while introducing measurement error.

The funding round is evidence, but it does not uniquely determine either taxable stake. A range does not establish that valuation is impossible.

Practice and evidence

1. Build an asset-rights matrix

Compare a quoted index fund, a founder control block, a venture common share, and a partnership carried interest. Identify what a tax assessor must know.

Deliverable: A four-row matrix and a 200-word measurement recommendation.

1. Record price evidence and ownership rights for each asset.
2. Name one missing variable and one practical rule per row.
3. Explain the fairness and administrative trade-off of your recommendation.

Rights and evidence · 2 points

Distinguishes tradability, control, and contingent claims without treating all shares alike.

Uncertainty · 2 points

States a missing input and how it could change the estimate.

Feasible comparison · 2 points

Compares at least two measurement conventions on a common objective.

2. Stress-test a private appraisal

Use the invented perpetual cash flow of 120,000 with discount rates of 8%, 10%, and 12%, a 2% tax, and no growth. Evaluate the resulting range.

Deliverable: Three valuations, three liabilities, and a 250-word uncertainty memo.

1. Compute cash flow divided by discount rate.
2. Calculate the tax under each assumption.
3. Explain what the model leaves out and distinguish model disagreement from fraud.

Arithmetic · 2 points

Reports 1.5m, 1.2m, 1m valuations and 30,000, 24,000, 20,000 liabilities.

Interpretation · 2 points

Explains the discount-rate sensitivity and the perpetual-flow simplification.

Judgment · 2 points

Identifies evidence needed to select a defensible rate without inventing certainty.

Reflection

Which valuation convention would you defend publicly if it sometimes overvalued your own preferred asset type?

Formative self-check

Choose an answer before looking at the answer key. These questions are open practice, not a secure assessment.

1. A founder owns restricted shares while a small investor owns freely tradable shares in the same firm. What is the strongest appraisal question?

- A. Which holder is morally more deserving?
- B. What rights and restrictions differ, and what value concept does the rule target?
- C. Why not always assign both a zero value?
- D. Does a quoted price eliminate every measurement choice?

2. Two honest appraisers choose different discount rates. What follows?

- A. One must be committing fraud.
- B. No tax can ever be administered.
- C. The valuation is model-sensitive and its assumptions need examination.
- D. Both estimates must be averaged without explanation.

3. A funding round gives preferred investors downside protection. Can its headline price be applied directly to common shares?

- A. Only after assessing whether different rights affect value.
- B. Always, because the company name is identical.
- C. Never use the round as evidence.
- D. Only if the common holder agrees with the policy.

Answer explanations

1. B — What rights and restrictions differ, and what value concept does the rule target?

Rights and the target concept are necessary to compare like with like. A quoted price is useful evidence but does not erase restrictions; moral judgments do not supply valuation inputs.

2. C — The valuation is model-sensitive and its assumptions need examination.

Sensitivity explains a possible honest difference. It neither proves fraud nor establishes impossibility; an unexplained average does not resolve why the rates differ.

3. A — Only after assessing whether different rights affect value.

The transaction is relevant evidence, but the rights must be adjusted or justified. Rejecting it entirely loses information; treating it as identical ignores the contract.

Appraisal institutions, incentives, and legitimacy

Allow approximately 75 minutes, plus any continuing activity.

Learning objectives

- Compare strict appraisal and simplified valuation using a common set of criteria.
- Trace avoidance and discretionary enforcement incentives without assuming dishonesty.
- Evaluate the chapter's two-equilibria claim and household analogy.

Assigned source readings

V. The administrative reality: the state must choose its poison; Option 1: Intrusive precision; Option 2: Flexible approximation; VI. The avoidance industry: a predictable response to valuation power; VII. Discretion and power: why valuation states invite corruption and capture; VIII. Why the public doesn't see it: the invisibility of administrative costs; IX. A final household translation: the annual appraisal of your life; The lesson line

Full-book PDF pages 186–189. Section links open the chapter at the relevant page.

Develop the argument

The chapter's dilemma is a hypothesis to test

Section V contrasts “intrusive precision” with “flexible approximation.” The first uses disclosure, audits, standards, and penalties to reduce underreporting; the second accepts safe harbours and broad estimates to reduce administrative burden. The book argues that the first produces costly conflict and the second porousness and unfairness, ultimately denying a stable middle. Teach that last step as the author's strong institutional claim. A trade-off between accuracy and simplicity does not logically prove that every intermediate design is unstable. To evaluate the claim, define accuracy, cost, privacy, equal treatment, and durability separately. A design may sacrifice a little precision to obtain predictable treatment without necessarily collapsing into either extreme. Conversely, describing a compromise as “balanced” supplies no evidence that it survives strategic adaptation or political pressure.

Avoidance changes what the institution must administer

The chapter's avoidance mechanism begins with a comparison of costs and rewards. If changing ownership structure or disputing an appraisal saves more than professional assistance costs, legal planning becomes attractive. It need not involve hidden criminal conduct. The policy may then induce forms of ownership that are harder to measure, requiring more expertise and enforcement. This is a feedback loop: measurement affects incentives, incentives change the measured base, and the altered base changes administrative demands. Distinguish private expenditure from total social cost. Some professional work improves legal certainty or compliance; some may be mainly devoted to securing a favourable transfer. The relevant evaluation asks what resources would otherwise have done, not whether every accountant is unproductive. It should also avoid counting the same legal fee as multiple separate economy-wide losses.

Discretion, capture, and the visibility problem

Section VII focuses on who decides whether an appraisal, discount, or structure is acceptable. Discretion can allow sensible case-specific judgment, but it can also create opportunities for lobbying, selective enforcement, negotiated privilege, and suspicion. The chapter predicts corrosion of consent even when officials are personally honest. That is a claim about institutional legitimacy, requiring evidence about procedures and public perceptions. Safeguards worth comparing include published standards, reasoned decisions, independent review, consistent audit selection, and disclosure limits. Each has a cost and cannot be assumed perfect. Section VIII adds that compliance hours, litigation, and investment responses are less visible than a headline fairness argument. Make these costs explicit alongside gross receipts and intended public benefits. Visibility is a reason to investigate a neglected effect, not a rule that every unseen effect must be negative.

Use the household analogy without importing its boundaries

The final household translation imagines annual appraisals of skills, reputation, friendships, and future prospects. It dramatizes the discomfort of converting uncertain future value into a mandatory number. It is an analogy, not a description of the assets included in an actual wealth-tax proposal. A learner who silently places friendships in a real tax base has misunderstood the source. Use the comparison to ask what is measurable, then return to the legal base under review. The chapter also grants that redistribution could be morally desired while a particular instrument remains unsuitable. This separates ends from means: evaluate revenue, distribution, privacy, and institutional cost together. A defensible conclusion could favour a redesigned tax, another instrument, or rejection. The course grades the chain of evidence and the handling of alternatives, not agreement with the book's final label of a regime.

The municipal appraisal pilot

Invented for this course.

In an invented jurisdiction, a proposed high-wealth asset tax offers either annual bespoke valuations or three-year formula values with appeal rights. Officials have a fixed audit budget.

1. Compare both designs against the same targets: net receipts, equal treatment, administrative hours, privacy, and dispute resolution.
2. Model an honest taxpayer with volatile assets and a strategic taxpayer who can shift ownership form.
3. Specify how published formulae and independent appeal could reduce discretion while creating their own costs.
4. Identify evidence that would show whether the compromise is stable rather than simply asserting moderation.

The pilot can test the chapter's dilemma. Neither administrative difficulty nor a well-intentioned safeguard alone determines the verdict.

Practice and evidence

1. Compare two feasible regimes

Design strict annual appraisal and a simplified alternative for the same fictional asset base. Include the intended use of revenue.

Deliverable: A paired design brief with six comparison criteria.

1. Keep the taxpayer population and rate fixed.
2. Trace one avoidance response under each design.
3. State an observation that would make you abandon your preferred option.

Comparability · 2 points

Holds the base population and objective constant rather than comparing ideal and real systems.

Incentives · 2 points

Connects a specific rule to a plausible response and enforcement consequence.

Revisability · 2 points

Provides measurable failure criteria and considers public benefits.

2. Audit a persuasive analogy

Assess the chapter's annual-appraisal-of-your-life comparison without rewriting its source text.

Deliverable: A 300-word argument map separating resemblance, difference, and conclusion.

1. Identify the uncertainty the analogy illuminates.
2. Identify at least two differences from a financial-asset tax.
3. Restate the strongest surviving critique in operational terms.

Fidelity · 2 points

Represents the author's uncertainty and coercion argument accurately.

Boundaries · 2 points

Does not imply that personal friendships or skills are actually taxable assets.

Reasoning · 2 points

Retains a testable critique without treating rhetoric as proof.

Reflection

What evidence would change your mind about whether a simplified valuation system is acceptably fair?

Formative self-check

Choose an answer before looking at the answer key. These questions are open practice, not a secure assessment.

1. A report lists gross tax receipts but excludes audit costs and funded services. What should an evaluator do?

- A. Reject the tax solely because costs exist.
- B. Accept receipts as the welfare gain.
- C. Add administrative and behavioural costs and the value and distribution of benefits.
- D. Count every taxpayer payment as resource destruction.

2. What would most directly test the book's assertion that no stable middle exists?

- A. A popular slogan about fairness.
- B. Longitudinal evidence on an intermediate design's accuracy, cost, avoidance, and legitimacy.
- C. An example of one difficult patent.
- D. An assumption that officials are always honest.

3. The household analogy mentions friendships. Which reading is accurate?

- A. It proves a specific government taxes friendships.
- B. It shows every valuation method is equally bad.
- C. It removes the need to inspect the proposed legal base.
- D. It dramatizes uncertain valuation but is not a literal inventory of a real tax.

Answer explanations

1. C — Add administrative and behavioural costs and the value and distribution of benefits.

A complete appraisal requires costs and benefits with appropriate accounting. Receipts are a transfer before their uses and collection costs are evaluated; neither omission supports a final verdict.

2. B — Longitudinal evidence on an intermediate design's accuracy, cost, avoidance, and legitimacy.

The assertion concerns institutional stability over time. One hard asset or good intentions cannot show whether an intermediate design succeeds or fails.

3. D — It dramatizes uncertain valuation but is not a literal inventory of a real tax.

An analogy highlights a structural resemblance while retaining differences. Treating its imaginary inventory as law converts rhetoric into a false factual claim.

Module assessment

Design review for an annual asset tax

A fictional commission proposes a 1.5% annual tax above a threshold. Its base combines listed securities, owner-operated firms, rental property, and partnership interests. It claims collection will be cheap because assets already have values. Prepare an evidence-based response; you may support, modify, or reject the proposal.

Required evidence

- A four-asset measurement plan.
- A two-design comparison including public uses of revenue.
- A 500-word recommendation with uncertainties and evidence that could reverse it.

Assessment criteria

Measurement · 5 points

Identifies the rights, valuation concept, inputs, and uncertainty for every asset class.

Institutional reasoning · 5 points

Explains how rules change reporting, avoidance, enforcement, and legitimacy.

Fair comparison · 5 points

Compares feasible alternatives and includes benefits as well as costs.

Source discipline · 5 points

Separates the chapter's hypothesis and analogy from verified policy facts.

Model response: consult after your attempt

A strong response accepts that quoted securities are easier to administer while explaining why restrictions and control can matter. It treats private-company and partnership values as model-dependent, compares annual bespoke appraisal with a defined simplification, and anticipates strategic reclassification. The recommendation includes gross and net receipts, privacy, distribution, and appeal arrangements. It may conclude that a middle design is feasible or that its costs dominate, provided the conclusion follows from stated assumptions rather than the chapter's rhetoric.

Source cautions and interpretation

- All source blocks 01694–01819 were read consecutively from the TXT and reconciled against the complete JSON block collection. There are no figures, tables, or mapped footnotes for chapter 13.
- “Valuation state” and the claim of only two stable equilibria are the book's analytical framing; the chapter does not establish the impossibility of every intermediate design.

- The household analogy includes personal attributes outside ordinary financial-asset tax bases. It must not be represented as the terms of an actual proposal.
- Worked examples and numerical inputs are invented teaching cases, not valuations, tax advice, or verified empirical estimates.

Source coverage

I. Valuation is not a technical detail; it is the policy

Lesson 1 develops tax-base definition, transaction-specific pricing, private-company sensitivity, and the four complex-asset classes; the matrix and appraisal exercise test their different information requirements.

[Read source section: full-book PDF page 183](#)

II. Public assets are the easy corner case

Lesson 1 develops tax-base definition, transaction-specific pricing, private-company sensitivity, and the four complex-asset classes; the matrix and appraisal exercise test their different information requirements.

[Read source section: full-book PDF page 183](#)

III. Private businesses: the valuation war begins

Lesson 1 develops tax-base definition, transaction-specific pricing, private-company sensitivity, and the four complex-asset classes; the matrix and appraisal exercise test their different information requirements.

[Read source section: full-book PDF page 184](#)

A. The absence of a market price

Lesson 1 develops tax-base definition, transaction-specific pricing, private-company sensitivity, and the four complex-asset classes; the matrix and appraisal exercise test their different information requirements.

[Read source section: full-book PDF page 184](#)

B. Modelling is contestable

Lesson 1 develops tax-base definition, transaction-specific pricing, private-company sensitivity, and the four complex-asset classes; the matrix and appraisal exercise test their different information requirements.

[Read source section: full-book PDF page 184](#)

C. Valuation becomes a litigation industry

Lesson 1 develops tax-base definition, transaction-specific pricing, private-company sensitivity, and the four complex-asset classes; the matrix and appraisal exercise test their different information requirements.

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IV. Complex assets: where valuation becomes metaphysics

Lesson 1 develops tax-base definition, transaction-specific pricing, private-company sensitivity, and the four complex-asset classes; the matrix and appraisal exercise test their different information requirements.

[Read source section: full-book PDF page 185](#)

A. Partnership interests and carried structures

Lesson 1 develops tax-base definition, transaction-specific pricing, private-company sensitivity, and the four complex-asset classes; the matrix and appraisal exercise test their different information requirements.

[Read source section: full-book PDF page 185](#)

B. Venture stakes and illiquid equity

Lesson 1 develops tax-base definition, transaction-specific pricing, private-company sensitivity, and the four complex-asset classes; the matrix and appraisal exercise test their different information requirements.

[Read source section: full-book PDF page 185](#)

C. Real estate portfolios

Lesson 1 develops tax-base definition, transaction-specific pricing, private-company sensitivity, and the four complex-asset classes; the matrix and appraisal exercise test their different information requirements.

[Read source section: full-book PDF page 186](#)

D. Intellectual property and goodwill

Lesson 1 develops tax-base definition, transaction-specific pricing, private-company sensitivity, and the four complex-asset classes; the matrix and appraisal exercise test their different information requirements.

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V. The administrative reality: the state must choose its poison

Lesson 2 compares precision and approximation, traces avoidance and discretion, inventories hidden costs, and evaluates the household analogy and lesson line through institutional-design and analogy audits.

[Read source section: full-book PDF page 186](#)

Option 1: Intrusive precision

Lesson 2 compares precision and approximation, traces avoidance and discretion, inventories hidden costs, and evaluates the household analogy and lesson line through institutional-design and analogy audits.

[Read source section: full-book PDF page 186](#)

Option 2: Flexible approximation

Lesson 2 compares precision and approximation, traces avoidance and discretion, inventories hidden costs, and evaluates the household analogy and lesson line through institutional-design and analogy audits.

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VI. The avoidance industry: a predictable response to valuation power

Lesson 2 compares precision and approximation, traces avoidance and discretion, inventories hidden costs, and evaluates the household analogy and lesson line through institutional-design and analogy audits.

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VII. Discretion and power: why valuation states invite corruption and capture

Lesson 2 compares precision and approximation, traces avoidance and discretion, inventories hidden costs, and evaluates the household analogy and lesson line through institutional-design and analogy audits.

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VIII. Why the public doesn't see it: the invisibility of administrative costs

Lesson 2 compares precision and approximation, traces avoidance and discretion, inventories hidden costs, and evaluates the household analogy and lesson line through institutional-design and analogy audits.

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IX. A final household translation: the annual appraisal of your life

Lesson 2 compares precision and approximation, traces avoidance and discretion, inventories hidden costs, and evaluates the household analogy and lesson line through institutional-design and analogy audits.

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The lesson line

Lesson 2 compares precision and approximation, traces avoidance and discretion, inventories hidden costs, and evaluates the household analogy and lesson line through institutional-design and analogy audits.

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