

Corrigendum

Pages 161 and 162:

Two formulae were missing and can be found in the text below.

37. Prices and volumes

The EU task force made no recommendations concerning volume measurement and so what follows are the recommendations of the OECD Task Force on IPP responsible for developing this handbook.

The value of an original is determined by a combination of a number of factors, including:

- a) the tastes of consumers
- b) the size of the consumer market
- c) the popularity and reputation of the producer of the original
- d) the extent of advertising and promotion
- e) the intrinsic quality of the original

With the exception of (c), and possibly (b), all of these factors are difficult to quantify. This makes it very difficult, if not impossible, to measure change in the market price of originals.

As noted above, one way of valuing originals is as the net present value of future receipts, and indeed this method is recommended for valuing originals where there is an established system of royalty flows (musical, literary and photographic and imaging works). It is also recommended that formula (1) should be used to value these originals. The royalties are in fact rentals payable for services. H_j can therefore be decomposed into constituent price and volume components, such that

$$H_j = \sum_1^n Q_{ij} P_{ij} \quad (2)$$

where Q_{ij} is the volume of services provided by product i in period j , and P_{ij} is the corresponding price of the services. Substituting (2) in (1) gives

$$W_j = [\sum_1^n Q_{ij} P_{ij}] * (1+r_j-i_j) \quad (3)$$

A volume measure of the left hand component can be derived if there is a suitable price index for royalties. Of the right hand component, the value of the real growth rate (r_j) of royalties paid can be readily calculated, likewise. A real value of the interest rate (i_j) can be obtained by simply keeping it equal to the value in the base period. Hence, deriving a volume measure of the value of an original, valued using the formula in (1), can be obtained if there is a suitable price index for royalty payments. But deriving a price index for royalty payments faces the same difficulties as deriving a price index for originals.