

CHAPTER II

DEFINITIONS

Value.— Value is the worth of anything measured by any standard of purchasing power. It is the exchange power which one commodity or service has in relation to another. The word value is used in this sense throughout this volume. The other meaning of the word relating to adaptability for a certain purpose has not been brought under discussion. It is only value in exchange and not utility which is of interest to the appraiser.

A careful distinction must be drawn between the cost of an article and its value. The cost frequently determines the price at which an article is offered and taken in exchange and there may therefore be at times a close relation between cost and value. But the words are in no sense synonymous and cannot be used interchangeably.

Value in the sense of worth estimated by any standard of purchasing power, is, in the case of such properties as public utilities, a result of the earning capacity. In the case of certain properties such as highly improved residence property a determination of value from earning capacity may not be immediately apparent but the rental value is nevertheless generally there and can be determined. In the case of such properties as works of art, however, which are not ordinarily revenue producing, but which are desired for the pleasure which they give and for educational purposes, the value in exchange cannot thus be measured, and consideration must be given to the more abstract question of supply and demand. The discussion in these pages will be restricted to the valuation of properties which have an earning capacity.

Market Value.— In the sense in which used in this volume "value" is synonymous with market value.