Happy Harvesters, Inc. owns a large combine. They know how much their costs are for fuel, repairs and labor, but they need help calculating their current ownership costs, so they can tell if the custom rates they charge for combining are high enough. Here are their facts:

### Current Year

- **Estimated current value of the combine and harvesting heads**: $120,000
- **Weighted cost of capital**: 75% borrowed @ 8%
  - 25% equity capital @ 4% opportunity cost

#### Calculate:

- **Interest**: (cost of capital times current value) $________
- **Depreciation**: (estimate at 10% of current value) $________
- **Taxes and insurance**: (estimate at 1% of current value) $ _ _ _ _ _ _ _ _

**Total** $ _ _ _ _ _ _ _ _

### Long Run

They can trade for a new combine for a cost of $200,000, including the value of their old machine that would be used as a trade-in. What would be **average** ownership costs per year over the next 8 years they expect to own the combine? The expected salvage value after 8 years is $80,000.

- **Average of current value and salvage value**: $________
- **Interest on average value**: (use the same cost of capital) $________
- **Depreciation**: (current value – salvage value) / years to own $________
- **Taxes and insurance** (1% of average value) $________
- **Total average ownership costs over the next 8 years**: $________