

29. Correct. The answer is false. In ground costs are:

$$(K/R_o) = 2,300,000,000/380,000,000 = \$6.05.$$

Your above ground cost is different from the in ground costs because in ground cost does not take into account your required rate of return for holding oil and producing it over many years. Including these holding costs, the equation for above ground cost is

$$(K/R_o) * (\alpha + r)/\alpha$$

and it can be computed as follows:

$$\$_o = (2,300/380) * (0.12 + 0.15)/0.15$$

$$\$_o = \$10.89 \text{ (unit costs)}$$