Cost-benefit analysis

Bondarenko Sergey, 131 БГУ

Introduction

Cost-benefit analysis is a last resort for obtaining information that might allow efficient decisions to be made about public spending on public goods.

Costs and benefits are computed to determine if a project is worthwhile:

$$W = \sum B - C > 0$$

Imprecision in cost-benefit analysis

There is imprecision in cost-benefit analysis. Often, the objective is to determine whether social benefit can reasonably be expected to be positive. Sensitive analysis is used in cost-benefit analysis to determine how conclusions depend on calculations and guesses that have been made of values of costs and benefits not expressed in markets.

The value of human life

When cost-benefit analysis includes computations of the value of the life of a person, how do we place a precise value on human life? The value of human life could be regarded as infinite.

What should the discount rate be?

   If private-capital markets reflect the time preference of people in society, we might want to consider using the market rate of interest as the social rate of discount for valuing future costs and benefits of public investment.

Income distribution and cost-benefit analysis

Cost-benefit analysis can be influenced by income-distribution consequences of public-spending decisions. Public spending often changes costs and benefits through people's incomes.

Thank you for your attention!