

Cost-Benefit Analysis Cases and Materials: A Comprehensive Guide for Decision-Makers

Cost-benefit analysis (CBA) is a powerful tool that can help decision-makers make informed choices about projects and policies. CBA is a systematic process that compares the costs and benefits of a proposed action to determine whether it is worth pursuing.

CBA has been used for centuries to evaluate a wide range of projects and policies, including transportation projects, environmental regulations, and social programs. CBA can be used to help decision-makers answer questions such as:

- Is a proposed project or policy worth pursuing?
- What are the best ways to achieve a desired outcome?
- How can we allocate resources efficiently?

CBA is a complex process, but it can be broken down into a series of steps:



Cost-Benefit Analysis: Cases and Materials by Euston Quah

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1. **Identify the problem or opportunity.** The first step in CBA is to identify the problem or opportunity that you are trying to address. This could be anything from a new transportation project to a new environmental regulation.
2. **Develop a set of alternatives.** Once you have identified the problem or opportunity, you need to develop a set of alternatives to address it. These alternatives could include different project designs, different policy options, or different ways to allocate resources.
3. **Estimate the costs and benefits of each alternative.** The next step is to estimate the costs and benefits of each alternative. This can be a complex process, and it requires careful consideration of all of the factors that could affect the costs and benefits of each alternative.
4. **Compare the costs and benefits of each alternative.** Once you have estimated the costs and benefits of each alternative, you need to compare them to each other to determine which alternative is the best choice. This can be done using a variety of methods, including net present value analysis, benefit-cost ratio analysis, and internal rate of return analysis.
5. **Make a decision.** The final step in CBA is to make a decision about which alternative to pursue. This decision should be based on the results of the CBA, as well as other factors such as political considerations and public opinion.

CBA is a powerful tool that can help decision-makers make informed choices about projects and policies. However, it is important to note that CBA is not a perfect tool. CBA can be complex and time-consuming, and it can be difficult to accurately estimate the costs and benefits of a proposed action. Additionally, CBA does not take into account all of the factors that may be relevant to a decision, such as political considerations and public opinion.

Despite these limitations, CBA is a valuable tool for decision-makers. CBA can help decision-makers identify the best ways to achieve a desired outcome, allocate resources efficiently, and make informed choices about projects and policies.

The following case studies illustrate how CBA can be used in practice:

- **Transportation project:** A proposed new transportation project is estimated to cost \$1 billion and will take 5 years to complete. The project is expected to reduce congestion by 20%, which will result in a savings of \$50 million per year. The CBA for this project showed that the benefits of the project outweigh the costs, and the project was approved.
- **Environmental regulation:** A proposed new environmental regulation is estimated to cost businesses \$100 million per year. The regulation is expected to reduce pollution by 10%, which will result in a savings of \$200 million per year. The CBA for this regulation showed that the benefits of the regulation outweigh the costs, and the regulation was approved.

- **Social program:** A proposed new social program is estimated to cost \$100 million per year. The program is expected to reduce poverty by 5%, which will result in a savings of \$200 million per year. The CBA for this program showed that the benefits of the program outweigh the costs, and the program was approved.

These case studies illustrate how CBA can be used to evaluate a wide range of projects and policies. CBA can help decision-makers make informed choices about how to allocate resources and achieve a desired outcome.

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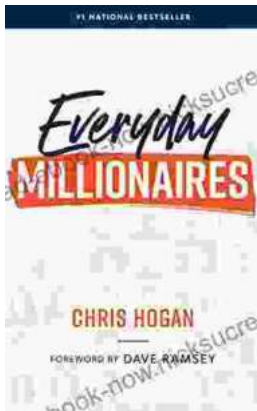
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