

Cost Benefit Analysis

Passel, P. Economic Watch: Polls may help government decide the worth of nature, New York Times, September 6, 19-21.

Portney, P. The Contingent valuation debate: Why economists should care Journal of Economic Perspectives 8(4):3-17, 1994.

The contingent valuation method, wherein sample surveys are used to elicit individuals' willingness to pay for certain types of policies, is playing an important role in government decision-making. The most prominent applications are in the valuation of damages to natural resources from oil spills. But the contingent valuation method will be more important still if it is used to expand the range of impacts included in applied benefit-cost analyses. This paper explains the origins of the contingent valuation method and the route through which it came to be the center of both an academic and a legal debate. Copyright 1994 by American Economic Association.

Hanemann, W.H. Valuing the Environment Through Contingent Valuation, Journal of Economic Perspectives 8(4):19-43, 1994.

Contingent valuation is now used around the world to value many types of public goods, including transportation, sanitation, health, and education, as well as the environment. The author describes how researchers go about making such surveys reliable, mentioning recent innovations in sampling, questionnaire design, and data analysis, including formulating the valuation as a closed-ended question about voting in a referendum to raise taxes for a particular purpose. He addresses various objections that contingent valuation results are incompatible with economic theory. Even without a market, there still exists a latent demand curve for nonmarket goods; contingent valuation represents a way to tease this out. Copyright 1994 by American Economic Association.

Diamond, P.A., and J.A. Hausman, Contingent valuation: Is some number better than no number?, Journal of Economic Perspectives 8(4): 45-64, 1994.

Without market outcomes for comparison, internal consistency tests, particularly adding-up tests, are needed for credibility. When tested, contingent valuation has failed. Proponents find surveys tested poorly done. To the authors' knowledge, no survey has passed these tests. The 'embedding effect' is the similarity of willingness-to-pay responses that theory suggests (and sometimes requires) be different. This problem has long been recognized but not solved. The authors conclude that current methods are not suitable for damage assessment or benefit-cost analysis. They believe the problems come from an absence of preferences, not a flaw in survey methodology, making improvement unlikely. Copyright 1994 by American Economic Association.

Boardman, A. A. Vining, W.G. Waters, II, Costs and Benefits through Bureaucratic Lenses: Example of a Highway Project, Journal of Policy Analysis and Management 12 (3): 532-555 (1993).

Bloom, David E. and Sherry Glied, "Benefits and Costs of HIV Testing", Science 252, June 1991, 1798-1801.

The benefits and costs of human immunodeficiency virus (HIV) testing in employment settings are examined from two points of view: that of private employers whose profitability may be affected by their testing policies and that of public policy-makers who may affect social welfare through their design of regulations related to HIV testing. The results reveal that HIV testing is clearly not cost-beneficial for most firms, although the benefits of HIV testing may outweigh the costs for some large firms that offer generous fringe-benefit packages and that recruit workers from populations in which the prevalence of HIV infection is high. The analysis also indicates that the testing decisions of unregulated employers are not likely to yield socially optimal economic outcomes and that existing state and federal legislation related to HIV testing in employment settings has been motivated primarily by concerns over social equity.

Elliot, Gareth and Geoff Harris, "A Cost-Benefit Analysis of Landmine Clearance in Mozambique", *Development Southern Africa* 18(5), December 2001, 625-633.

After reviewing the nature and extent of the landmine problem in Mozambique, this article applies cost-benefit analysis to landmine clearance in that country. The main benefits of clearance are saved lives, injuries and medical costs and the agricultural output that is not lost if landmines are cleared. A very large negative net present value was estimated, a result explicable by the high costs of clearance, the relatively small number of people killed or injured by landmines and the low value of agricultural productivity per hectare. The article concludes with a discussion of the role of the economist in analysing such issues and suggests some alternative areas in which financial resources would provide a greater positive impact on the welfare of Mozambicans.

Study Finds net Gains From OMB Rules- Eric Painin, *Washington Post*, Sept. 27, 2003.

This article discusses a controversial cost benefit analysis of EPA issued Clean Air regulations. The OMB analysis claims benefits outweigh costs by 5-7 times, while the year before they estimated them to be even.

Howe, C.W., Project benefits and costs from national and regional viewpoints: Methodological issues and case study of the Colorado-Big Thompson Project, *Natural Resources Journal* 26: 77-93, 1986

Krutilla, K. Using the Kaldor-Hicks Tableau Format for Cost-Benefit Analysis and Policy Evaluation, *Journal of Policy Analysis and Management* 864-875, Fall 2005.

Knowledge of economics is important for individuals to function effectively as citizens in an increasingly connected world economy. Economic literacy includes understanding how economies and markets work, what the benefits and costs of economic interaction and interdependence are, and that people have to make choices because resources are limited. In recent decades, the focus on economics content in the school curriculum has increased. In this first National Assessment of Educational Progress (NAEP) assessment of economics at grade 12, the overall average economics score, set at 150, fell within the "Basic" achievement level. Seventy-nine percent of students performed at the "Basic" level or higher, and 42 percent performed at the "Proficient" level or higher, including 3 percent at the "Advanced" level. Results are based on a nationally representative sample of 11,500

twelfth-grade students from 590 public and nonpublic high schools. Some key findings include: (1) The average economics score of male students was higher than the average score of female students; (2) White and Asian/Pacific Islander students scored higher, on average, than other racial/ethnic groups; (3) Students from large city schools had lower average scores than students in other locations; (4) Students whose parents had higher levels of education exhibited higher performance in economics; and (5) Most students study some economics in high school.

W. Hanemann (1991), “Willingness to Pay and Willingness to Accept: How Much Can They Differ?”, *The American Economic Review*, 81, 635-647.

S. A. Marglin (1963), “The Social Rate of Discount and the Optimal Rate of Investment”, *Quarterly Journal of Economics*, 77, 95-112.