Introduction

Cost-benefit analysis has become a key decision-making tool for public policy. Properly applied, the methodology can sometimes provide valuable insights. However, CBA has also been criticized as an inappropriate method for making some social choices. Even where critics agree CBA is the appropriate criterion it is sometimes criticized for failing to include all relevant decision variables, attempting to quantify the unquantifiable, or making inappropriate assumptions about key parameters.

EC485/585 is an upper division undergraduate and Master level course that presents the main methodologies for assessing the costs and benefits of various activities. The course develops CBA tools needed to analyze a variety of problems in a rigorous fashion, and discusses options for dealing with real-life problems, such as distorted prices, long time horizons, and missing markets that often plague analysts. The course also covers various critiques of CBA.

The course covers a number of CBA case studies with a particular emphasis on its use, or abuse, in making environmental policy where benefits and costs are often particularly difficult to quantify creating interesting intellectual challenges.

Prerequisites: Principles of Microeconomics (EC201)

Texts and Readings

There are two texts for the course, both available at the campus bookstore (and elsewhere). Get them as cheaply as you can! All other assigned readings will be attached as files to emails sent to all students on the class roster.


CLASS SCHEDULE

Week 1: September 26, 28, 30 (Introduction, Basics, and Warnings)

Monday

Exercise 1: Efficiency

Wednesday

Boardman, chapter 1: Introduction to CBA

Friday

Boardman, chapter 2: Conceptual Foundations of CBA

Week 2: October 3, 5, 7 (Theoretical Foundations)

Monday

Boardman, chapter 3: Micro Foundations of CBA: 52-61

Wednesday

Boardman, chapter 3: Micro Foundations of CBA: 62-74

Friday

Ackerman, chapter 1: Prices Without Values
Week 3: October 10, 12, 14 (Markets and Valuation)

Monday

Boardman, chapter 4: Valuing Benefits and Costs in Primary Markets

Wednesday

Boardman, chapter 5: Valuing Benefits and Costs in Secondary Markets

Friday

Ackerman, chapter 2: Myths and Markets

Week 4: October 17, 19, 21 (Discounting)

Monday

Boardman, chapter 6: Discounting Benefits and Costs in Future Time Periods

Wednesday

Boardman, chapter 10: The Social Discount Rate
Ackerman, chapter 8: Honey, I Shrunk the Kids

Friday

Week 5: October 24, 26, 28 (Uncertainty and Catastrophe)

Monday

Midterm Exam: Bring a Green Book, Pencil, and Calculator

Wednesday

Boardman, chapter 7: Dealing with Uncertainty
Ackerman, chapter 6: Dreadful Events

Friday

Howarth, R. “Discounting, Uncertainty, and Climate Change,” e3Network.

Week 6: October 31, November 2, 4 (Valuation Problems)

Monday


Wednesday

Boardman, chapter 12: Valuing Impacts: Experiments and Quasi-Experiments
Boardman, chapter 14: Valuing Impacts: Indirect Market Methods
Friday

Boardman, chapter 15: Contingent Valuation Surveys
Ackerman, chapter 7: Unnatural Markets

Week 7: November 7, 9, 11 (More Valuation Problems)

Monday

Boardman, chapter 16: Shadow Prices from Secondary Sources

Wednesday

Boardman, chapter 19: Distributionally Weighted CBA

Friday

Ackerman, chapter 4: The $6.1 Million Question

Week 8: November 14, 16, 18 (Taking Stock and Case Studies)

Monday

Boardman, chapter 20: How Accurate is CBA?

Wednesday

Ackerman, chapter 5: An Ounce of Prevention
Friday

Ackerman, chapter 9: Values Without Prices

**Week 9: November 21, 23, 25** (CBA and Climate Change)

**Monday**

*Green Economics*, chapter 8: A Brief History of Climate Negotiations

**Wednesday**

No Class: Thanksgiving Vacation

**Friday**

No Class: Thanksgiving Vacation

**Week 10: November 28, 30, December 2** (Confronting Climate Change)

**Monday**

*Green Economics*, chapter 9: Criticisms of Kyoto, and Appendix
Wednesday

Green Economics, chapter 10: Beyond Kyoto, and Conclusion

Friday

DeCanio & Fremstad, “Game Theory and Climate Diplomacy,” e3 Network

Wednesday, December 7, 10:15 AM – 12:05 PM, Final Exam: Bring Green Book, Pencil, and Calculator