

BENEFIT-COST ANALYSIS
Syllabus and Reading List

Economics 654/Public Administration 680
University of Kentucky

Spring 2009
TR 4:30-5:45pm, BE306

Professor: Glenn Blomquist

Office: 335Q Gatton Business and Economics Building
Hours: TR 9:00-10:00am & 2:30-3:30pm and after class. Other times can be arranged.
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Texts: Boardman, Anthony E., David H. Greenberg, Aidan R. Vining, and David L. Weimer. *Cost-Benefit Analysis: Concepts and Practice*. 3rd ed., (Upper Saddle River, NJ: Pearson Prentice Hall, 2006). Required. [Boardman] New and used hard copies should be available. An etextbook is available at www.coursesmart.com

Course

Description: Principles, practices and applications of applied welfare analysis are the content of this course. The basic theory of benefit-cost analysis (BCA) is presented and the relevance of implementation analysis in policy analysis is examined. Applications of benefit-cost analysis are examined.

Prerequisite: Knowledge of economics at the level of ECO/PA 652 is necessary. Familiarity with statistics and calculus will be helpful.

Grades: Grades will be based on two exams (25 points each), problem sets (20 points), BCA study critiques (25 points) and class participation (5 points). A curve based on the total of 100 points will be used, but 90 points guarantee an A, 80 a B, and 70 a C. Exam 1 is planned for approximately March 12 and will cover approximately sections I-III. Exam 2 will be given approximately April 23 and will cover approximately sections IV-VI. In lieu of a final exam, BCA critiques presentations are planned for April 28, April 30, and the regularly scheduled 2-hour time for the final exam. The scheduled time is 3:30-5:30pm on Tuesday, May 5 in our regular classroom.

Reading List: The required readings are chapters in the text. Any additional required readings are available electronically through the UK library or will be distributed in class. We will use guidelines and directives from the Office of Management and Budget and U.S. Environmental Protection Agency to supplement the text.

I. POLICY ANALYSIS AND BENEFIT-COST ANALYSIS

Chapter 1 "Introduction to Cost-Benefit Analysis"

II. BENEFIT-COST ANALYSIS, GOVERNMENT FAILURE AND IMPLEMENTATION STRATEGIES

Wolf, Charles, Jr. "A Theory of Nonmarket Failure: Framework for Implementation Analysis" *Journal of Law & Economics* 22 (April 1979): 107-139.

III. BASICS OF BENEFIT-COST ANALYSIS

Chapter 2 “Conceptual Foundations of Cost-Benefit Analysis”

Chapter 3 “Basic Microeconomic Foundations of Cost-Benefit Analysis”

Chapter 4 “Valuing Benefits and Costs in Primary Markets”

Chapter 5 “Valuing Benefits and Costs in Secondary Markets”

IV. DISCOUNTING NET BENEFITS

Chapter 6 “Discounting Benefits and Costs in Future Time Periods”

Chapter 10 “The Social Discount Rate”

V. RISK AND UNCERTAINTY

Chapter 7 “Dealing with Uncertainty: Expected Value, Sensitivity Analysis, and the Value of Information”

Chapter 8 “Option Price and Option Value”

VI. VALUING IMPACTS AND NONMARKET GOODS

Chapter 12 “Valuing Impact from Observed Behavior: Direct Estimation of Demand Curves”

Chapter 13 “Valuing Impacts from Observed Behavior: Indirect Market Methods”

Chapter 9 “Existence Value”

Chapter 14 “Contingent Valuation: Using Surveys to Elicit Information about Costs and Benefits”

Chapter 15 “Shadow Prices from Secondary Sources” (Value of Statistical Life ...)

Chapter 17 “Cost-Effectiveness Analysis” (Cost-Utility Analysis ...)

This section is my favorite. The text will be liberally supplemented by material from Blomquist research that will be distributed before or in class - no extra charge!