

# Making sense of cost-benefit analysis

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When making decisions we all ask ourselves about the pros and cons of different choices. Governments and businesses are no different. Cost-benefit analysis provides the basic framework used to assess whether to go ahead with a project proposal or not and the consequences of doing so.

## The module will focus on:

- the foundations of cost-benefit analysis
- defining the baseline and assessing marginal and non-marginal change
- valuing things that are not traded, e.g. environmental goods and services
- assessing costs and benefits over different time periods
- the limits to cost-benefit analysis and alternatives

## At the end of this module you will:

- be able to undertake basic cost-benefit analysis for your own projects
- be able to interpret and assess project appraisal
- understand the difference between public and private sector cost-benefit analysis
- understand techniques, e.g. discounting, optimism bias, distributional analysis

## You will understand and be able to use frequently used terms:

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|------------------------|--------------------|---------------------|
| • opportunity cost     | • switching values | • rates of return   |
| • compensation tests   | • discounting      | • marginal analysis |
| • NPVs / BCRs          | • optimism bias    | • sunk costs        |
| • non-market valuation | • baseline         | • risk adjustment   |

This module focuses on appraisal and evaluation in government. It begins with an overview of the underlying theory of welfare economics before moving to real world case studies. It draws on published appraisal guidance for the UK and other countries. It complements the module on making sense of government.

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