

# [All is 1.1 million (equally spread over two](https://assignbuster.com/all-is-11-million-equally-spread-over-two/)

Allthese stages of CBA can be understood with the help of an illustration. Let ustake an example of building a dam for electricity generation. Suppose it takestwo years to build a dam and assume that the cost of construction is 1.

1million (equally spread over two years) and let the cost of maintenance is Rs. 50, 000 for each year. Here, in this case costs (construction and operating) are easily measurable in termsof monetary values, whereas the benefits (recreation and generation ofelectricity) have to be converted into monetary values. Another problem is thatthe costs and benefits in the given table occur at different time periods andhence are not comparable. Using discount rates the costs and benefits can beexpressed in present day rupee value. If the discount rate is 10% per year, then the present value of net benefits would be about Rs.

-509335 and at 5%discount rate they are Rs. 39485. That means that at a discount rate of 10% damshould not be built as the costs exceed benefits, whereas at 5% of discountrate the project appears like a good investment. Table 2. 1   Costs and benefits associated with a Dam- anillustration Year Costs Benefits Total benefits Total costs Net benefits   Construction Operating Recreation Electricity       1 550 0 0 0 0 550 -550 2 550 0 0 0 0 550 -550 3 0 50 50 100 150 50 +100 – – – – – – – – – – – – – – – – 19 0 50 50 100 150 50 +100 20 0 50 50 100 150 50 +100 Source: Kavi K. S.

(Dissemination paper-15)