

All is 1.1 million  
(equally spread over  
two



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All these stages of CBA can be understood with the help of an illustration. Let us take an example of building a dam for electricity generation. Suppose it takes two years to build a dam and assume that the cost of construction is 1.1 million (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 terms of monetary values, whereas the benefits (recreation and generation of electricity) have to be converted into monetary values. Another problem is that the costs and benefits in the given table occur at different time periods and hence are not comparable. Using discount rates the costs and benefits can be expressed 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% a dam should not be built as the costs exceed benefits, whereas at 5% of discount rate the project appears like a good investment.

Table 2. 1 Costs and benefits associated with a Dam- an illustration

Year	Construction	Operating	Recreation	Electricity	Total costs	Total benefits	Net benefits
0	550				550		-550
1		550	300	150	1100	500	-600
2		500	500	150	1500	1000	-500
3			500	150	650	1000	350
4			500	150	650	1000	350
5			500	150	650	1000	350
6			500	150	650	1000	350
7			500	150	650	1000	350
8			500	150	650	1000	350
9			500	150	650	1000	350
10			500	150	650	1000	350

(Dissemination paper-15)