

To what extent might
cba be a useful
method of evaluating
this proposal

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The Basic Economic Problem is that needs and wants are unlimited but resources are limited. Cost Benefit analysis (CBA) is a technique for assessing the monetary and social costs and benefits of a capital investment project over a given time period. It is by this method that we decide to which project proposal our limited resources go. CBA has traditionally been applied to big public sector projects, therefore in theory it would be a good method of working out whether to consider subsidizing a series of high-speed rail lines in order to reduce short-haul air flights, however this does not necessarily mean that it is a useful method for this proposal.

The best thing about CBA is that it leads to a clear decision, which is necessary, as the problem presented needs a distinct outcome. How else would you make this decision, whatever method you are going to comparing the pros and cons, this is human nature's way of addressing a problem. This is also a benefit of CBA as it is easy to understand you are simply looking at whether the benefits outweigh the costs. Although the monetizing all the costs and benefits is tricky once you have got a quantitative measurement then the cost benefit is very easy to see. This clarity means that everyone involved will understand the monetary nature of the project and this causes it to be an extremely powerful tool.

However this simplicity also brings complications. Using whether to build a series of high-speed trains as an example, CBA means that you have to be able to generate accurate estimations about the benefits and costs you would receive from the project. If your calculations are inaccurate, you could deem a project a viable option and good use of resources only to discover later that it ended up costing the company money. Also the best estimations

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may not line up with actual consumer behavior because it is irrational and easily swayed by other things. Furthermore to gain this simplicity you have to use a common unit of measurement in order to easily see the difference. Some costs are easy to value such as running cost and capital costs, other costs are more difficult and particularly in this case where there is a significant impact on the environment.

Many say the destruction of a habitat is "priceless", yet to others it can also be "worthless". If there are no property rights as well then it creates a tragedy of the commons as well, this could include air pollution, as it would be a benefit of reducing short haul flights. There is also another large problem because the social discount factor which is used to work out the difference of the value of a cost or benefit now versus the value of a cost or benefit in future years. How do you choose an interest rate for reducing future costs to give them a present day value? No matter what the scheme a government failure can occur, this is that there will always be unexpected consequences. You can't guarantee there won't be natural disasters that won't damage the infrastructure and cause costs that you couldn't have predicted. You also can't predict consumer preferences, they can and will change over time as well as always being irrational. Maple Leaf case study

There is no quick fix or easy way to correct environmental regulation. Whatever method used to make a regulatory decision has to undertake great analysis and cross comparing. Cost benefit analysis only expresses a small part of the picture, in the future when creating methods I think that they need to be focused on insuring that government, producers and consumers have better access to information on the nature and extent of all

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possible health hazards, as well as the technological capabilities of industries to respond to regulatory controls.