# Nalanda Open University
# Department of Economics

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- Course – MA Economics (Part –II)
- Paper – IX (Welfare Economy)
- Topic – Cost Benefit Analysis

# Cost Benefit Analysis

**Cost–benefit analysis** (CBA), sometimes also called **benefit–cost analysis** or **benefit costs analysis**, is a systematic approach to estimating the strengths and weaknesses of alternatives used to determine options which provide the best approach to achieving **benefits** while preserving savings (for example, in transactions, activities, and functional business requirements).

# Important Applications

To determine if an investment (or decision) is sound, ascertaining if – and by how much – its benefits outweigh its costs.

To provide a basis for comparing investments (or decisions), comparing the total expected cost of each option with its total expected benefits.

# Pioneer Work by-

- The concept of CBA dates back to an 1848 article by Jules Dupuit, and was formalized in subsequent works by Prof A. Marshall.
- Jules Dupuit pioneered this approach by first calculating "the social profitability of a project like the construction of a road or bridge

# Cost Benefit Analysis Evaluation

Cost Benefit Analysis attempts to measure the positive or negative consequences of a project. A similar approach is used in the environmental analysis of total economic values. Both costs and benefits can be diverse.

# Steps in Cost Benefit Analysis Measurement

- Define the goals and objectives of the action.
- List alternative actions.
- List of Shareholders
- Select measurement(s) and measure all cost and benefit elements.
- Predict outcome of costs and benefits over the relevant time period.
- Convert all costs and benefits into a common currency.
- Apply Discount Rate
- Calculate the Net Present Value (NPV) of actions under consideration.
- Perform Sensitive Analysis
- Adopt the recommended course of action