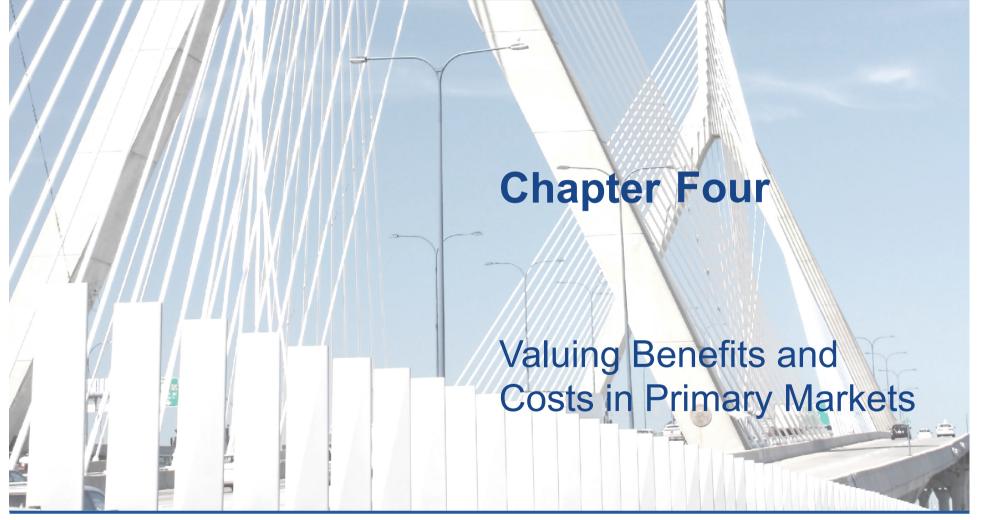
Concepts and Practice





Cost-Benefit Analysis: Concepts and Practice, Fourth Edition Boardman • Greenberg • Vining • Weimer

Current situation: A market is currently functioning without government intervention <i>and</i> there is evidence of market failure.		
Conclusion: It is worth considering potential government interventions that might increase net social benifits.		
CBA analytic task: Given the presence of market failure, assess whether the benefits of a proposed government policy (including any benefits from reducing or eliminating the market failure) exceed the costs of the policy.		The benefits of eliminat the current government policy exceed the costs of eliminating the policy (i.e., whether, on baland it is preferable to return an operational market).
Current situation: The government has intervened and there is currently no		
government failure.		OR
Conclusion: The current government intervention is not optimal—the current policy is either redundant or replaceable by a potentially more efficient government policy.		The benefits of replacin the existing governmen policy with some other government intervention exceed the cost of replacement (i.e., wheth some other governmen policy would increase n social benefits).
CBA analytic task: Given the presence of government failure, assess whether either:		
	functioning without government intervention and there is evidence of market failure. Conclusion: It is worth considering potential government interventions that might increase net social benifits. CBA analytic task: Given the presence of market failure, assess whether the benefits of a proposed government policy (including any benefits from reducing or eliminating the market failure) exceed the costs of the policy. Current situation: The government has intervened and there is currently no functioning market, <i>but</i> there is evidence of government failure. Conclusion: The current government intervention is not optimal—the current policy is either redundant or replaceable by a potentially more efficient government policy.	functioning without government intervention and there is evidence of market failure. Conclusion: It is worth considering potential government interventions that might increase net social benifits. CBA analytic task: Given the presence of market failure, assess whether the benefits of a proposed government policy (including any benefits from reducing or eliminating the market failure) exceed the costs of the policy. Current situation: The government has intervened and there is currently no functioning market, <i>but</i> there is evidence of government failure. Conclusion: The current government intervention is not optimal—the current policy is either redundant or replaceable by a potentially more efficient government policy. CBA analytic task: Given the presence of

Figure 4-1 How to Consider Market and Government Failure in CBA

Copyright © 2011 Pearson Education, Inc. publishing as Prentice Hall

ating nt ts су nce, rn to).

ing ent ~ ion ether ent net



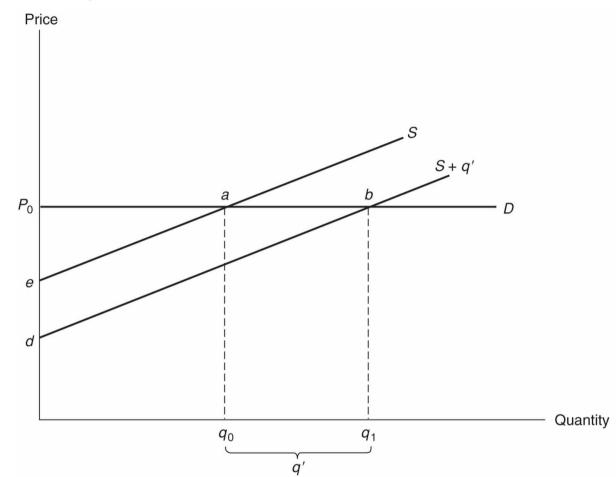


Figure 4-2 Measuring Benefits in an Efficient Market with No Price Effects

Social surplus change (ignoring costs of project inputs to the government): Project (a): Direct increase in supply of q'—gain of project revenue equal to area of rectangle q_0abq_1 Project (b): Supply schedule shift through cost reduction for producers—gain of trapezoid *abde*

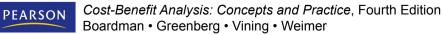
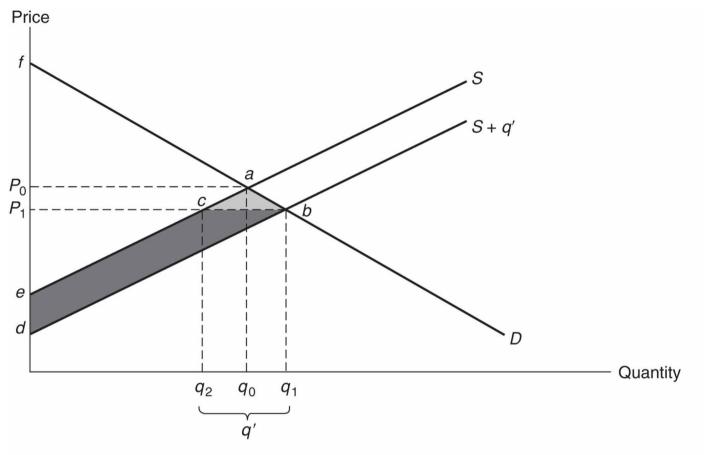


Figure 4-3 Measuring Benefits in an Efficient Market

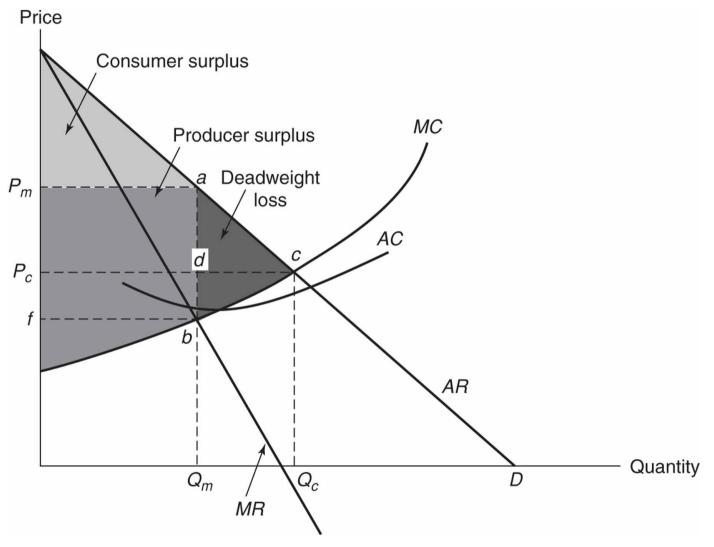


Social surplus change (ignoring costs of project inputs to the government):
Project (a): Direct increase in supply of q'—gain of triangle *abc* plus project revenue equal to area of rectangle q₂cbq₁
Project (b): Supply schedule shift through cost reductions for producers—gain of trapezoid *abde*

Copyright © 2011 Pearson Education, Inc. publishing as Prentice Hall



Figure 4-4 Monopoly

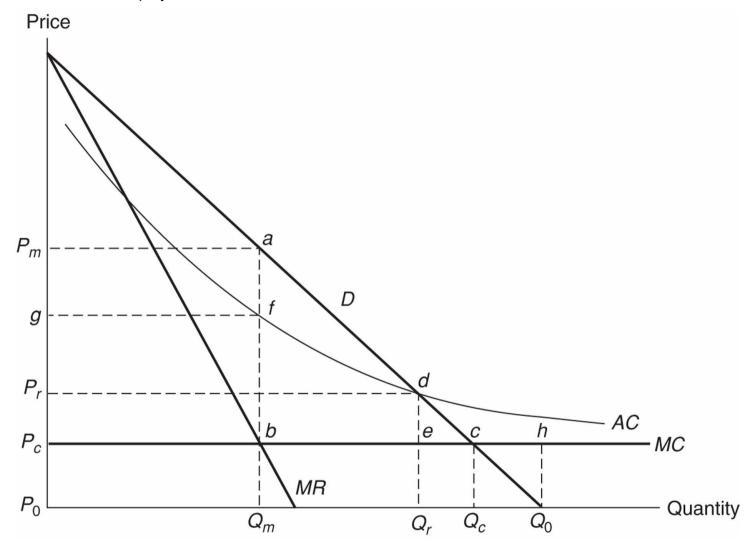


Copyright © 2011 Pearson Education, Inc. publishing as Prentice Hall



Cost-Benefit Analysis: Concepts and Practice, Fourth Edition Boardman • Greenberg • Vining • Weimer







Cost-Benefit Analysis: Concepts and Practice, Fourth Edition Boardman • Greenberg • Vining • Weimer

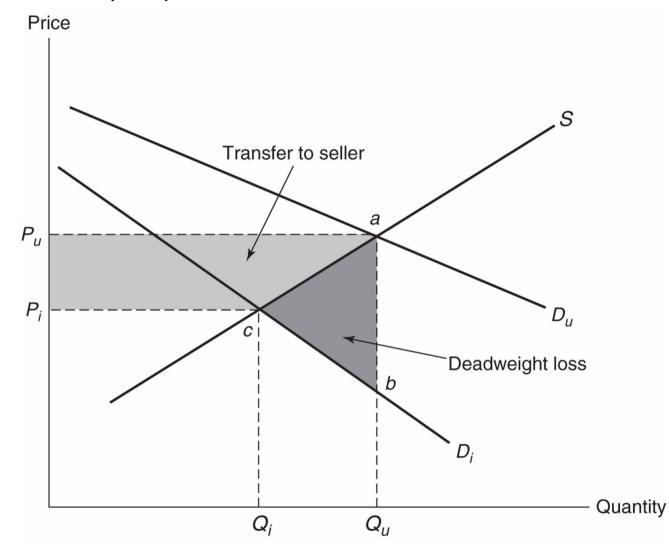


Figure 4-6 Information Asymmetry

Copyright © 2011 Pearson Education, Inc. publishing as Prentice Hall



Cost-Benefit Analysis: Concepts and Practice, Fourth Edition Boardman • Greenberg • Vining • Weimer

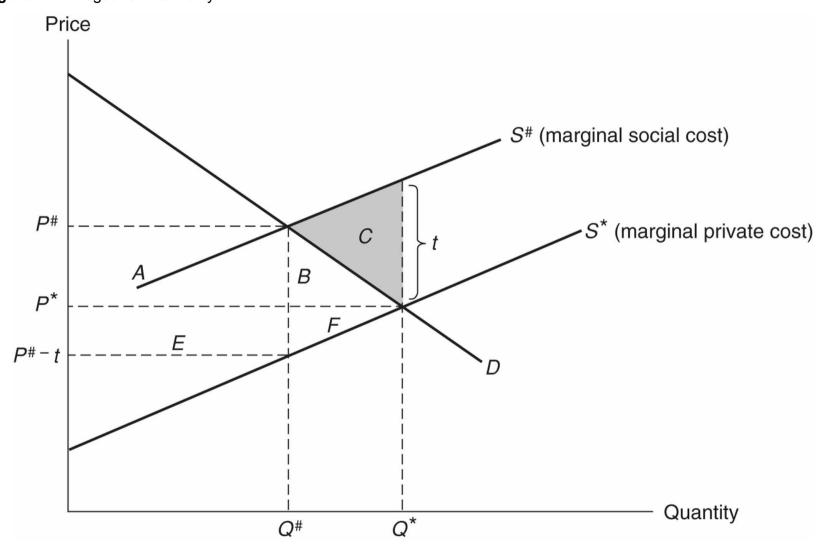


Figure 4-7 Negative Externality



Cost-Benefit Analysis: Concepts and Practice, Fourth Edition Boardman • Greenberg • Vining • Weimer

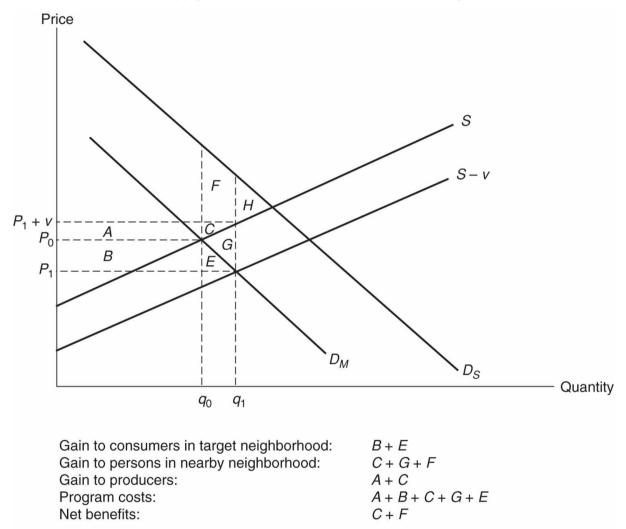


Figure 4-8 Social Benefits for Direct Supply of a Good with a Positive Externality



Cost-Benefit Analysis: Concepts and Practice, Fourth Edition Boardman • Greenberg • Vining • Weimer

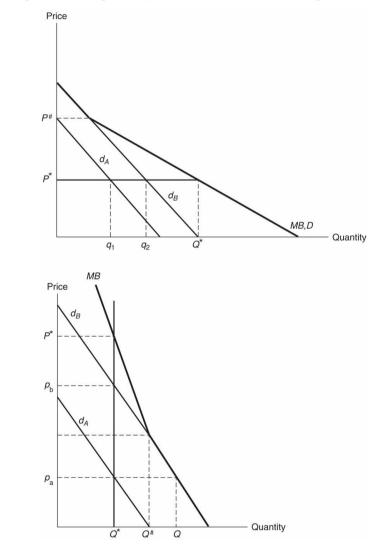


Figure 4-9 (a) Rivalrous Good (e.g., hamburger) (b) Nonrivalrous Good (e.g., streetlight)



Cost-Benefit Analysis: Concepts and Practice, Fourth Edition Boardman • Greenberg • Vining • Weimer

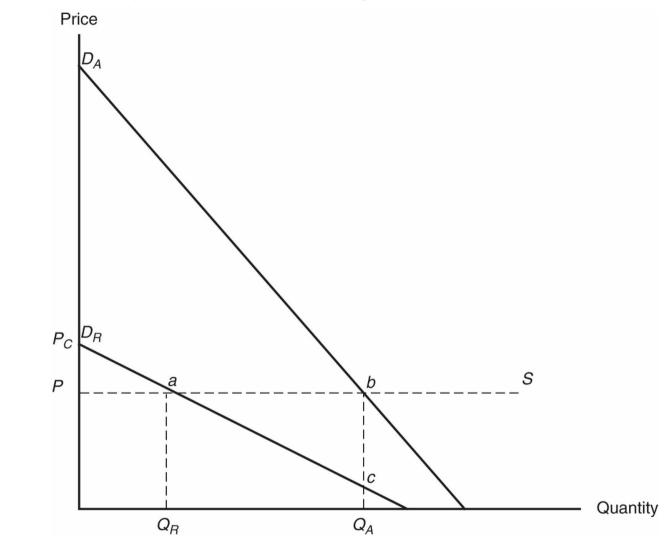
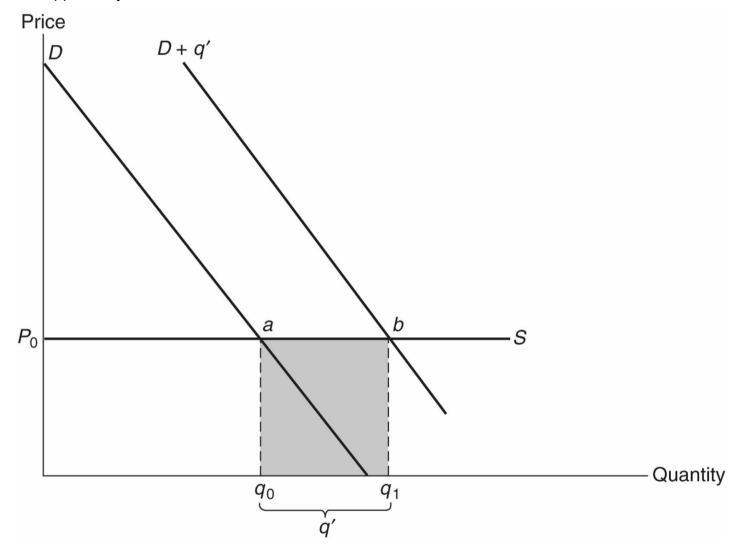


Figure 4-10 Consumer Surplus in the Presence of Gambling Addiction



Cost-Benefit Analysis: Concepts and Practice, Fourth Edition Boardman • Greenberg • Vining • Weimer

Figure 4-11 Opportunity Costs with No Price Effects





Cost-Benefit Analysis: Concepts and Practice, Fourth Edition Boardman • Greenberg • Vining • Weimer

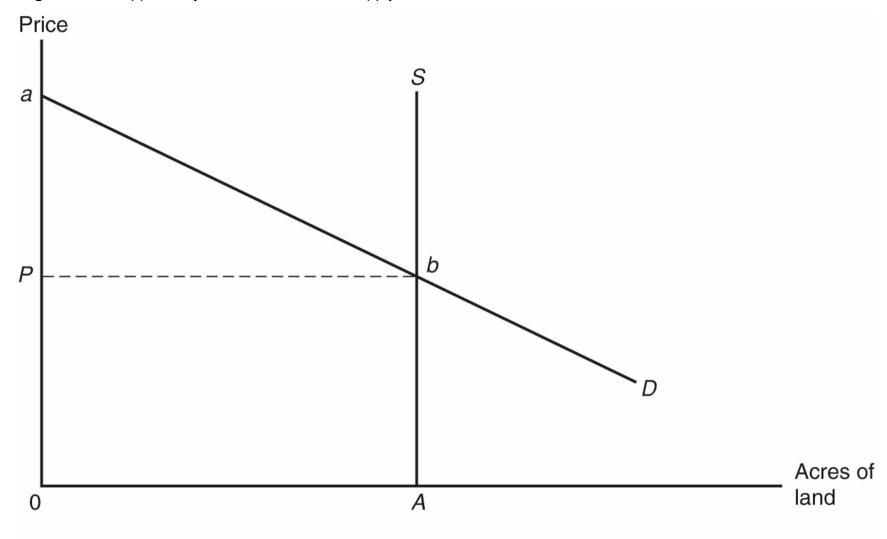
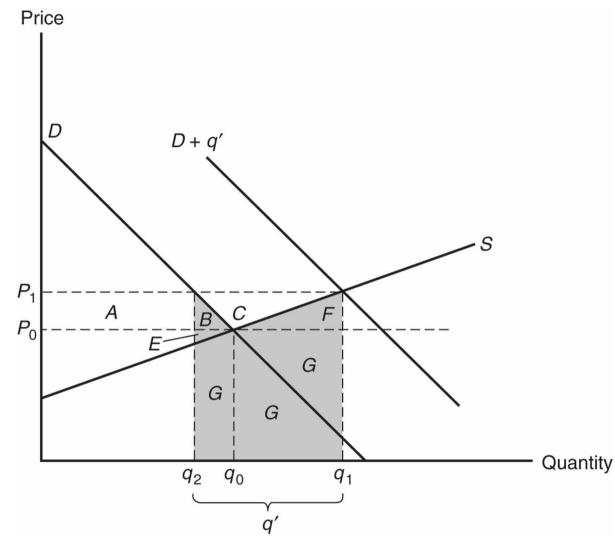


Figure 4-12 Opportunity Costs with Inelastic Supply Curve

 $\operatorname{Copyright} \otimes \operatorname{2011}$ Pearson Education, Inc. publishing as Prentice Hall



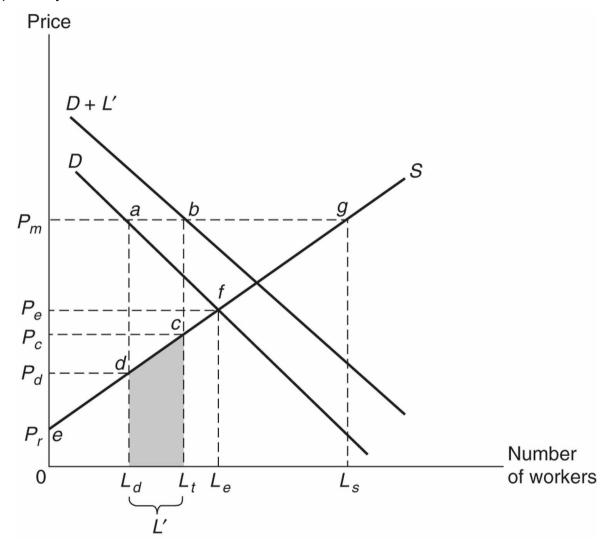
Figure 4-13 Opportunity Costs with Price Effects





Cost-Benefit Analysis: Concepts and Practice, Fourth Edition Boardman • Greenberg • Vining • Weimer

Figure 4-14 Opportunity Costs with a Price Floor





Cost-Benefit Analysis: Concepts and Practice, Fourth Edition Boardman • Greenberg • Vining • Weimer

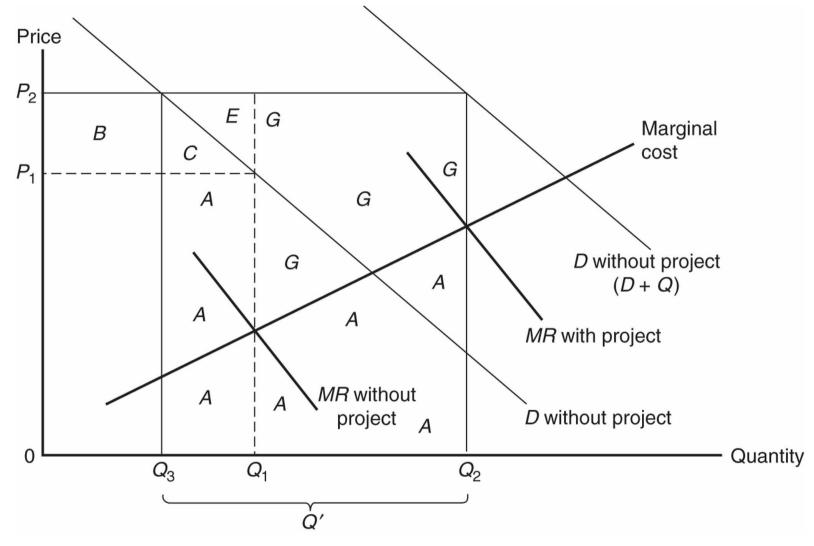


Figure 4-15 Opportunity Costs When Buying from a Monopoly



Cost-Benefit Analysis: Concepts and Practice, Fourth Edition Boardman • Greenberg • Vining • Weimer