

# ECON 850 ECONOMIC EVALUATION AND POLICY 2003

## Professor Peter Abelson

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**Course time:** Tuesday evenings, 6.05 p.m. to 9.0 p.m.

**Location:** Room C5A 301

## Description of course

The course describes how to evaluate public policies and projects using economic principles. We start with a discussion of the nature of public issues, economic evaluation and the welfare economic principles that are the basis for economic analysis for public policy. The main part of the course explains the principal method of economic evaluation, cost-benefit analysis, in detail. Other methods of evaluation are introduced and compared with cost-benefit analysis. The course draws on numerous practical examples and exercises.

## Aims of the course

The minimum aim of the course is to enable students to understand the role of economic analysis in the conduct of public policy. For stronger students, the aim is to enable you to conduct economic evaluations, using cost-benefit analysis, and to advise policy makers on public policy issues.

## Course method

In our Tuesday evening sessions, I will talk for about an hour and a half outlining the key points for that week. There will then a break for about 10 minutes. In the second half of the evening, students will break into groups to discuss questions relating mainly to the topic of the *previous* week. Students should do the core reading associated with each topic. You will be given the questions at the session so that you will engage actively in problem solution.

## Course schedule: topics

Date	Week's topic	References
March 4	Nature and process of economic evaluation Examples of economic evaluation	B1
March 11	Welfare economics foundations of economic evaluation	B2; P1,2
March 18	Cost-benefit evaluation criteria	B1,2; P4
March 25	General valuation principles Valuations in primary and secondary markets	B3; P3 B4,5
April 1	Basic valuation with market prices Valuing benefits by estimating demand curves Multiple choice test (1)	B12
April 8	Valuing benefits from revealed preferences	B13,15
April 29	Valuing benefits from stated preferences	B14,15
May 6	Choosing the discount rate	B6,10; P4
May 13	Dealing with uncertainty	B7; P6
May 20	Treatment of equity and distributional issues Multiple choice test (2)	B18; P5
May 27	Alternative evaluation methods	B17
June 3	Carrying out cost-benefit studies	B19
June 10	Revision	

## Assessment

Two multiple choice tests in class (see program)	2 tests × 10 marks	20 marks
One set of questions (to be given out 8 April and to be done by 14 May)		20 marks
Final exam (2 hours)		60 marks

The final exam will cover the whole course. To pass the course, students are expected to achieve at least 30 marks in the final exam.

## Course references reading

Abelson, P., 2003, *Public Economics: Principles and Practice*, Chapters 8 and 9, Applied Economics, Sydney.

Bateman, I, Carson, R.T, Day, B., Hanemann, M., Hanley, N., Hett, T, Jones-Lee, M., Loomes, G., Mourato, S., ozdemiroglu, E., pearce, D.W., Sugden, R., and J.Swanson, 2002, *Economic Valuation with Stated Preference Techniques, A Manual*, Edward Elgar, Cheltenham, U.K.

Boardman A., Greenberg D., Vining A. and D.Weimer, 2001, *Cost-Benefit Analysis, Concepts and Practice*, 2<sup>nd</sup> ed., Prentice Hall. **Course text.**

Department of Finance, 1991, *Handbook of Cost-Benefit Analysis*, Australian Government Publishing Services, Canberra.

Layard, R. and S.Glaister, (eds:), 1994, *Cost-Benefit Analysis*, Cambridge University Press (especially Chapter 1).

Pearce, D. W., 1983, *Cost-Benefit Analysis*, MacMillan, London.

Neuburger, H., and N.Fraser, 1993, *Economic Policy Analysis: A Rights-based Approach*, Avebury (Gower), Aldershot, U.K.

Zerbe, R.O., and D.D.Dively, 1994, *Benefit-Cost Analysis in Theory and Practice*, Harper Collins, New York.

## Selected articles

Abelson, P.W., 2002, *The Value of Life and Health for Public Policy*, 31<sup>st</sup> Australian Conference of Economists, Adelaide.

Arrow K.J. and R.C. Lind, 1970, 'Uncertainty and the evaluation of public investment decisions', *American Economic Review*, 60, 364-78.

Dupuit, J., 1844, 'On the measurement of the utility of public works' translated by Barbarak, R.H., in *International Economic Papers*, 2, 1952, 83-110.

Harberger, A.C., 1971, 'Three basic postulates for applied welfare economics: an interpretive essay', *Journal of Economic Literature*, 9, 785-97.

Hicks, J.R., 1939, 'The foundations of welfare economics', *Economic Journal*, 49, 692-712.

Lesser, J., and R.O.Zerbe, 1998, 'A Practitioner's Guide to Benefit-Cost Analysis', pp.221-268 in *Handbook of Public Finance*, eds: F.Thompson and M.T.Green, Marcel Dekker, Inc. New York.

Mishan, E.J., 1982, *Cost-Benefit Analysis*, 3<sup>rd</sup>. ed. Allen and Unwin, London.

## **CBA Studies**

### Transport

- Very High Speed Rail
- Warringah Transport Study
- Parramatta-Chatswood railway
- M2 and M5 studies
- Road safety
- Second Sydney Airport
- Cross-city tunnel

### Education

- Year 12 schooling

### Health

- Tobacco consumption
- Coronary heart disease
- HIV/AIDS
- Immunisation

### Environment

- Wallis Lake protection
- Swimming pool fencing

### Urban Development

- Urban consolidation v fringe development
- Edmondson Park

### Transfer of assets

- ARTC study

### Competition policy

- Boundary surveying

### **Some main points**

CBA is often cost minimisation