

PUBP 710.012

The Economics of Investment Appraisal

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The aim of this course is to consider the role of economics as a tool in investment appraisal. While there is a limited consideration of financial appraisal techniques to provide a backdrop and point of comparison, much of the attention is on the evaluation of public projects where profits are not the driving motivation. Such public projects may include dams, road, airports, public hospitals, and agricultural drainage schemes.

The appraisal of public projects can often be a more complex process, not only because they are not normally priced in markets, but also because a wider range of costs and benefits are considered important. How to deal with such diversity of effects is a major problem. The effects of such projects may also involve a much longer time horizon, taking resources from the present and only generation gains in the distant future. Risks of failure can thus be considerable. Decision-makers are also concerned about who benefits and who bears the costs of such projects - with commercial projects this is seldom a consideration. In other words, it is not always narrow efficiency that is of primary interest but matters of equity (including spatial, demographic and temporal as well as income.)

The course will look at a range of techniques used in this type of appraisal (such as cost-benefit analysis, cost-effectiveness analysis, planning balance sheet and threshold analysis), consider their respective merits and uses, and explore some of the difficulties in their application through the use of case studies. It will look at standard packages that have been developed to operationalize some of these techniques as well as at individual one-off studies. The attention will not only be on the use of these techniques in countries such as the US but will also consider the problems of their application to much less economically advanced countries. For example the course will involve looking at the methodology of agencies such as the World Bank. The course will also explore the institutional context in which the various techniques are deployed, and where they fit into wider decision-making frameworks.

The course assessment will involve a mid-term examination (30%) and the completion of a project (70%)