PPPA 6015:
Economics Applied to Public Policy:
Benefit Cost Analysis
Spring 2015

Instructor: Prof. J. Cordes
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Office Hours: Tues. 4-8:30 PM; by appt.

Required

Supplemental
HM Treasury: Appraisal and Evaluation in Central Government, 2003 (Blackboard)

Recommended

Course Description
PPPA 6015 is the second course in a two-semester sequence that is intended to develop the student's ability to use economic analysis to analyze and evaluate outcomes of public policy. It is the empirical sequel to PPPA 6014, and focuses on turning the economic theory of policy analysis into practice. The main analytical framework linking the theory of micro-economic policy analysis to the empirical evaluation of policy is applied welfare economics, and more specifically, benefit-cost analysis.

Learning Objectives
Through lectures, discussions, readings, assignments, exams, and a class project, students will develop knowledge and skills that will enable them to:

(1) understand the conceptual foundations, strengths, and limitations of applied welfare economics and cost-benefit analysis (CBA) as tools of policy analysis;
(2) undertake a welfare economic/benefit-cost analysis of a public policy;
(3) apply economic theory to public policy problems;
(4) evaluate and compare policy alternatives using cost-benefit analysis and economics generally.

Assessment and Grading
The grade in PPPA 6015 is based on the following work products:

(1) Take-home examination (35%);
(2) Benefit-Cost Analysis project (50%). (See the CBA guidelines handout for details): (i) project proposal (5%); (ii) List of Potential Costs & Benefits (5%); (iii) Literature & Data Review (5%); Class Presentation (5%); Final Paper (30%)
(3) Graded Assignments (15%)
(4) Practice problems (0%)

The graded assignments and practice problems are designed to reinforce the concepts from class
and prepare you for the exams. The intent of the practice problems is to help you absorb some of the specific concepts we will be covering, and will provide preparation and feedback for the course examination. The problems are listed in the course schedule under the class in which the concepts are covered. I recommend that you do them AFTER the class under which they are listed. Answers to the problems will be posted the week after the practice problems are posted.

Class Discussion: I encourage active discussion and questions in class. Although class participation is not included among the graded activities above, a student can earn extra credit for class participation if they find themselves on the borderline between one grade and another (e.g. a B+ to A-, B to B+, etc.)

COURSE OUTLINE

I. Jan. 15: Overview of Cost-Benefit Analysis and Applied Welfare Economics: (Lecture 1 and 2)

What is Cost-Benefit Analysis; what questions is it intended to answer; what are its main elements? Boardman, et. al. (BGWV), Chapter 1.
HM Treasury Green Book: 1-36 (skim)

What is Applied Welfare Economics; what role can and should it play in the policy process?
BGWV, Chapter 2.

Practice Problem Set #0 (for review) and #1
CBA Project Proposal due Jan. 29


The concept of economic efficiency in applied welfare economics and benefit costs analysis: Pareto efficiency, actual vs. potential Pareto improvements, compensation criteria. How public policies affect economic efficiency.
BGWV, Chapter 2.

Empirical building blocks: Willingness-to-pay and Social opportunity cost.
BGWV, Chapter 2

Critical Perspectives and Rejoinders:
President of the United States, Memorandum on Regulatory Review, Feb. 2009

OMB Watch: Cost Benefit Analysis the Stunning Triumph of a Flawed Tool. Center for Progressive Reform, “A Return to Common Sense…”

http://www.progressivereform.org/articles/PRIA_909.pdf


Sunstein, Preface, pp. 1-27, and Ch. 8 in *Risk and Reason.*

**The Economist:** “The Regulator’s Best Friend?”


PEW, 2013. *States’ Use of Cost-Benefit Analysis*

Practice Problem Set #2

**Assignment #1 (due Jan. 29)**

**III. Jan 29, Feb. 5, 12: Willingness-to-Pay & Social Opportunity Cost (Lectures 3-5)**

Compensating and equivalent variations; Consumer surplus, producer surplus; social surplus.

*BGVV, Ch. 3, HM Treasury, *Green Book*, Annex 2*


Benefits and social costs in primary and secondary markets; transfers vs. real benefits and costs.

*BGVV, Chs. 4 and 5*


Practice Problem Sets #3 and #4
IV. Feb. 19: Discounting and the Issue of Time in Benefit-Cost Analysis (Lectures 6 - 8).

The Mechanics of Discounting
BGVW, Ch. 6

Practice Problem Set # 5

The Social Discount rate
BGVW, Ch. 10; HM Treasury, Green Book, Annex 6

Assignment #3 (due Mar. 19)
CBA Project Literature Review (due March 26)

V. Feb. 26, Mar. 5: Estimating Benefits and Costs in Practice: (Lectures 8 and 9)

BGVW, Predicting and Monetizing Impacts, Chapters 11 and 13.
Deck and Chestnut, Benefits Transfer: How Good is Good Enough?
Conney and Lynch-Cerrulo, 2014. “Social Rate of Return (SROI): A Case Study of JVS.

Obtaining Estimates from “Analogous/Related Markets”
BGVW, Ch. 14
Cameron, 2009. One Hundred Reasons Why we Should Replace the “Value of a Statistical Life” (VSL) with “Willingness to Pay for a Micro-Risk Reduction.” (quite amusing).

Obtaining estimates from Demonstration Projects and Controlled Experiments
BGVW, Ch. 12

Practice Problem Set #6

Existence value and contingent valuation

BGVW, Ch. 9 and Ch. 14.

Practice Problem Set #7

Obtaining Estimates from Secondary Sources
BGVW, Ch. 16
Deck and Chestnut, *Benefits Transfer: How Good is Good Enough?*

Practice Problem Set #8

**VI. Mar. 19, 26: Dealing With Uncertainty** (Lectures 10 and 11)

Some general principles for decision-making under uncertainty

BGVW, Ch. 7.
Hallegatte, “A Cost Benefit Analysis of the New Orleans Flood Protection System.” AEI-
Practice Problem Set #9
*CBA Project Literature Review (due Mar. 26).*

**VII. Apr. 2: Dealing with Distributional Issues** (Lecture 12)

**Distributional Weighting of Benefits and Costs**
- Boardman, Ch. 19
- Sunstein, 2014. The Poor Need Ryan’s Regulatory Reform
- Miller, 2014. Paul Ryan Anti-Poverty Plan Targets Regressive Regulations

Kaldor-Hicks Compensation in Practice (time permitting)

**VIII. Apr. 9: Cost Effectiveness Analysis** (Lecture 13)
- BGVW, Ch. 18.
- Cheesman: “Performance Measurement and Program Evaluation for Drug Courts, Module 5”
- Quinn, et. al. 1984. “Cost Effectiveness of Two Math Programs as Moderated by Pupil SES”

*Education Evaluation and Policy Analysis*

*Take home examination distributed on Blackboard April 9, due back April 23.*

**IX. Student Presentations**: Apr. 16, 23, 30

**University Policies**
- Religious Holidays: [http://provost.gwu.edu/policies-procedures](http://provost.gwu.edu/policies-procedures)
- Student Disability Services: [http://www.gwired.gwu.edu/dss](http://www.gwired.gwu.edu/dss)
- Academic Integrity: [http://studentconduct.gwu.edu/academic-integrity](http://studentconduct.gwu.edu/academic-integrity)