PUBLIC FINANCE – COST BENEFIT ANALYSIS

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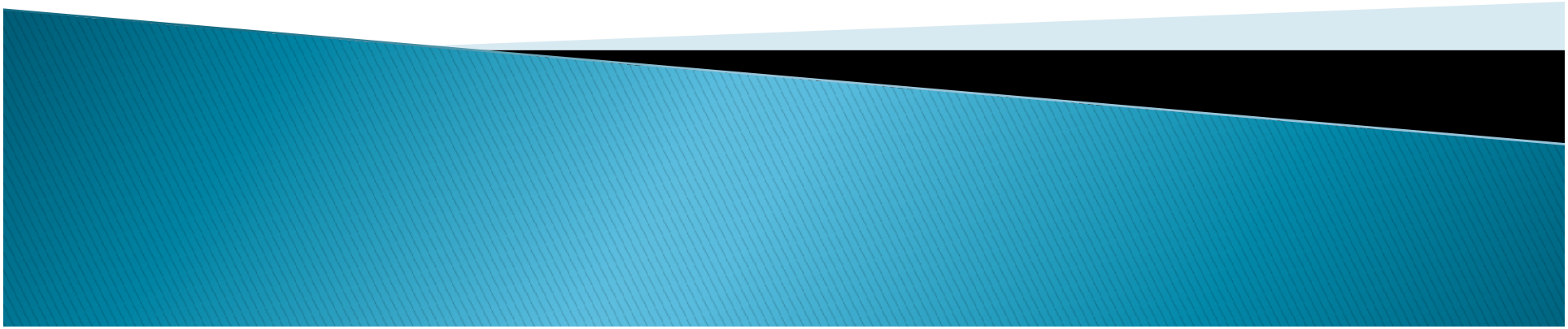


History of CBA

- Dates back to the work of **Alfred Marshal**
  - **1)One of the founder of neoclassical economics**
  - **2) Brings the idea of demand and supply; Marginal utility and cost of production**

- Practical application was initiated in U.S by **Corps of Engineers** after Federal Navigation act 1936 – Flood control

- Later applied in several fields – High way & Motor way

History :

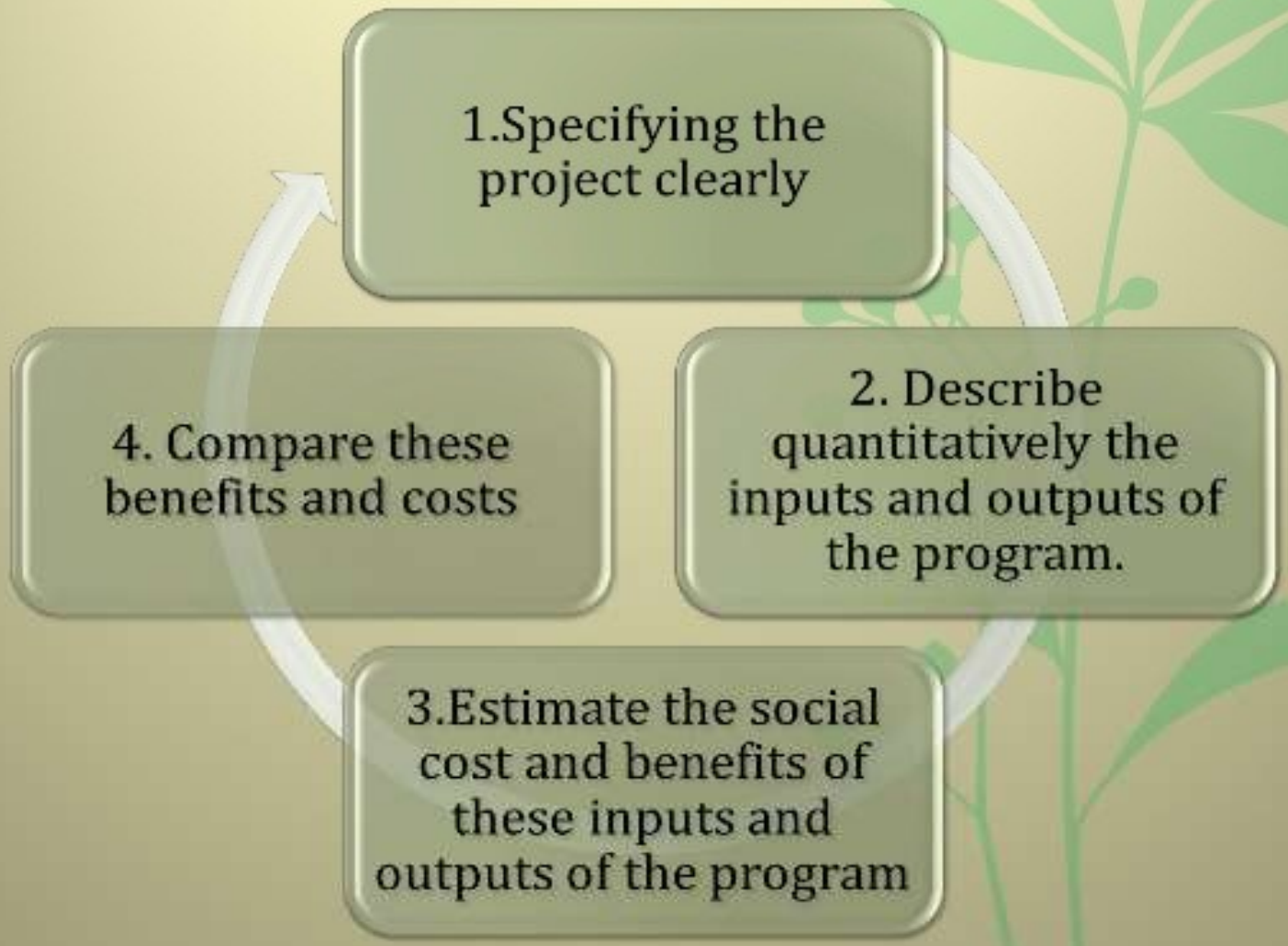
ost Benefit Analysis can be traced back to the

19th century by a French engineer & economist

Jules Dupuit.

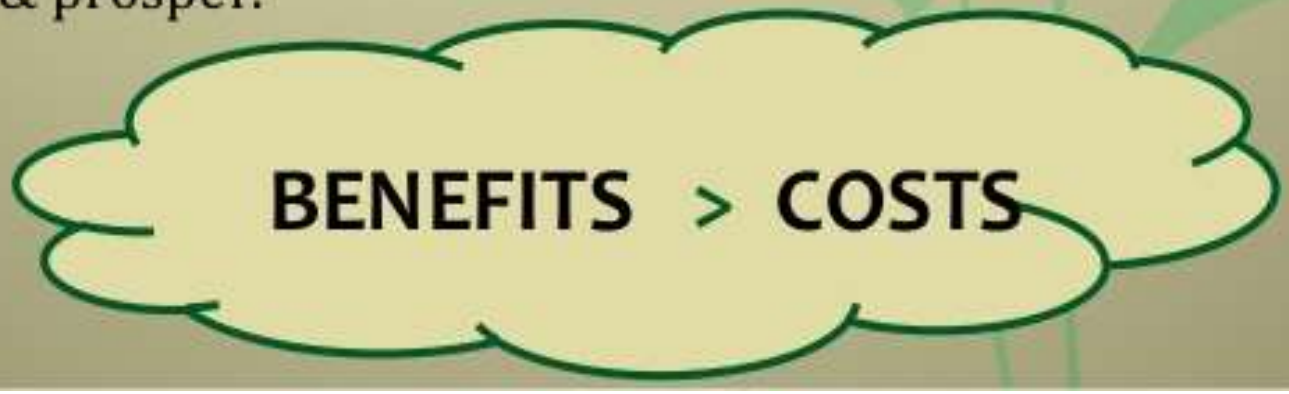
n 1936, it is a simple way of weighing up project costs and benefits, to determine whether to go ahead with a project or not.

The General steps for Cost Benefit Analysis are:



Concept of Cost – Benefit Analysis:

- Cost benefit is a tool which modern financial analysts adopt before undertaking any financial operation or commercial activity.
- The ultimate aim of a business organization is to make profits.
- Therefore, any system in the organization must produce more benefits as compared to its costs for the organization to survive & prosper.



Key CBA Indicators

- NPV (net present value)
- PVB (present value of benefits)
- PVC (present value of costs)
- BCR (benefit cost ratio = PVB / PVC)
- **Net benefit = (PVB - PVC)**
- NPV/k (where k is the level of funds available)

Cost to the society due to pollution:

X axis = Level of pollution

Y axis = cost in rupees

Rightward "X" axis = Pollution increases and towards left less pollution.

At origin "O" pollution is nil.

Similarly "Y" axis if we go up, the cost incurred is high and lower the cost is less.