

# Contents

<i>Preface to the sixth edition</i>	xiii
<i>Acknowledgements</i>	xv
<b>PART I</b>	
<b>Scope and method</b>	1
1 Brief historical background to cost-benefit analysis	3
2 What is cost-benefit analysis?	7
3 Framework to cost-benefit analysis	11
<b>PART II</b>	
<b>Basic concepts of benefits and costs</b>	15
4 Measurements of consumer surplus	17
5 Consumer surplus when several prices change	25
6 Consumer surplus when other things change	31
7 Introduction to the compensating variation	36
8 Measurements of rent	39
9 Is producer surplus a rent?	45
<b>PART III</b>	
<b>Shadow prices and transfer payments</b>	49
10 Introductory remarks	51
11 Opportunity cost of labour	53
12 Opportunity cost of unemployed labour	57
13 The additional benefits of using unemployed labour	60

x *Contents*

14 The opportunity costs of imports	64
15 Transfer payments and double counting	69

**PART IV**

**External effects**

73

16 Introduction to external effects	75
17 Adverse spillovers	81
18 Internalizing externalities	86
19 Evaluating spillovers	90
20 Compensating for environmental damage	97

**PART V**

**Investment criteria**

105

21 Introduction to investment criteria	107
22 Crude investment criteria	111
23 The discounted present value criterion	115
24 The internal rate of return	121
25 The alleged superiority of the discounted present value criterion compared with the internal rate of return criterion and the net benefit ratio	125
26 Investment criteria in an ideal capital market	132
27 Calculation of rates of return and of time preference	134
28 Critique of the discounted present value criterion (I)	137
29 Critique of the discounted present value criterion (II)	142
30 The normalized compounded terminal value criterion (I)	146
31 The normalized compounded terminal value criterion (II)	151
32 The Pareto criterion and generational time	154
33 Cost-benefit analysis, weights and normative economics	159

**PART VI**

**Uncertainty**

169

34 Risk and certainty equivalence	171
35 Decision rules and heuristics (I)	174

36 Decision rules and heuristics (II)	178
37 How practical are decision rules and heuristics?	184
38 Simple probability in decision making	187
39 Mixed strategies in decision making	189
40 Four additional strategems for coping with uncertainty	193
<b>PART VII</b>	
<b>Topics frequently encountered in cost-benefit analysis</b>	<b>201</b>
41 Valuation issues and methods	203
42 Benefit transfers	213
43 Pair-wise comparison	222
44 Cost-benefit analysis and behavioural economics	228
45 Cost-benefit analysis in developing countries	241
46 The value of time	248
47 Measuring the benefits of recreational areas	251
48 Travel cost method	256
49 Cost-benefit analysis and public health	260
50 The value of statistical life	264
51 Estimating the economic cost of air pollution on health	273
52 Economic cost of diseases	287
53 Cost-benefit analysis and the problem of locating environmentally noxious facilities (NIMBYs): an informal discussion	297
<b>PART VIII</b>	
<b>Further notes and advanced materials</b>	<b>309</b>
54 Cost-benefit analysis and the economist	311
<i>Appendix 1: Cost-effectiveness analysis</i>	317
<i>Appendix 2: The alleged contradiction of the Kaldor-Hicks criterion</i>	320
<i>Appendix 3: The problem of second-best</i>	323
<i>Appendix 4: Origins of the Hicksian measures of consumer surplus</i>	327
<i>Appendix 5: Marginal curve measures of consumer surplus</i>	332
<i>Appendix 6: The concept and measure of rent</i>	338
<i>Appendix 7: Marginal curve measures of rent</i>	343

<i>Appendix 8: The limited applicability of property rights</i>	347
<i>Appendix 9: Deadweight loss or love's labour lost</i>	349
<i>Appendix 10: The value of human life</i>	352
<i>Appendix 11: The rate of time preference</i>	354
<i>Appendix 12: Selecting a set of investment projects for given political objectives</i>	357
<i>Appendix 13: Why cost-benefit analysis is useful for regulatory reform</i>	361
<i>Appendix 14: Valuing household production</i>	365
<i>Bibliography and further reading</i>	368
<i>Index</i>	382