

## Cost Benefit Analysis

Professor Stuart Shapiro

EJB 538

Office Hours Tuesday 10-1

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Course: 34:833:632

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### Overview

The goal of this course is for students to be able to conceptualize the costs and benefits of public policy decisions and to effectively critique professional cost-benefit analyses. After an introduction to the utilitarian roots of cost-benefit analysis, we will deal with particular issues in doing cost benefit analysis. These include identification of costs and benefits, discounting, dealing with uncertainty, valuing health and human life and comparisons with cost-effectiveness analysis. The course will conclude with a series of case studies where students will be asked to evaluate a cost benefit analysis that played a role in a policy decision.

### Requirements

The class is divided into two parts. The first eight weeks of the class are mostly lecture oriented. During this period of the class there will be 7 take home assignments (worth 40% of the grade). The second portion of the class will be case studies of cost-benefit analyses. The class will be divided into four groups with each group leading the discussion on one of the cases and each individual writing an evaluation of the analysis. Leading the discussion will be worth 10% of the grade in the course (there will be one grade for the group) and the papers will be worth 30% of the grade. The remaining 20% of your grade is class participation, which will be particularly valuable during the case study section of the course.

While students are encouraged to work in small groups on the take home assignments, they must be written up individually. Late assignments are not accepted.

You are also required to uphold the university standards for academic integrity found here: <http://academicintegrity.rutgers.edu/>

### Readings

The required text is *An Introduction to Cost-Benefit Analysis* by Gines de Rus. Numerous readings in the first portion of the class are from this text. Other readings are available on the course website on Sakai or have links below.

## Section I The Mechanics

### **Class 1 September 4, Introduction and Economic Roots of CBA**

Arrow, Kenneth, et al. 1996. "Benefit-Cost Analysis in Environmental, Health, and Safety Regulation: A Statement of Principles" AEI-Brookings Joint Center.

Chapter 1 de Rus (not appendix)

### **Class 2 September 11, Ethical Debate over CBA**

Frank Ackerman and Lisa Heinzerling *Priceless: On Knowing the Price of Everything and the Value of Nothing* The New Press, 2004. Chapters 1,2, and 9 on sakai.

John Graham "Saving Lives Through Administrative Law and Economics" *University of Pennsylvania Law Review* 157:395. 2008. Sections I and II on sakai.

*Memo 1 Due*

### **Class 3 September 18, Measuring Costs and Using Market Prices to Measure Benefits.**

De Rus, Sections 2.1 – 2.3, 3.1-3.2

"On the Accuracy of Regulatory Cost Estimates" by Winston Harrington, Richard Morgenstern, and Peter Nelson. *Journal of Policy Analysis and Management* 19:297-322 (2000) available on Sakai

### **Class 4 September 25, Other Techniques for Measuring Benefits**

De Rus ch.5, 6.1-6.2

Carson, Richard. T. "Contingent Valuation: A Practical Alternative when Prices Aren't Available" *Journal of Economic Perspectives* 2012.. available on Sakai.

*Memo 2 due*

### **Class 5 October 2, Discounting**

De Rus Chapters 7 and 8.

Mark Moore, Anthony Boardman, Aidan Vining, David Weimer, and David Greenberg, "Just Give Me a Number: Practical Values for the Social Discount Rate." *Journal of Policy Analysis and Management* 23:789 (2004)

Blog post: [http://www.economist.com/blogs/freeexchange/2014/05/long-run?fsrc=scn/tw\\_ec/weighing\\_the\\_future](http://www.economist.com/blogs/freeexchange/2014/05/long-run?fsrc=scn/tw_ec/weighing_the_future)

Blog post: <http://www.regblog.org/2014/04/07-farber-discount-rates.html>

*Memo 3 due*

### **Class 6 October 9, Uncertainty, Sensitivity Analysis, Simulations**

De Rus. Chapter 9

Bob Litterman “What is the Right Price for Carbon Emissions” *Regulation* Summer 2013

Schroeder, Christopher, “The Precautionary Principle,” Center for Progressive Regulation *Perspectives*, accessed on February 9, 2005, at <http://www.progressivereform.org/perspprecaution.cfm>

John Graham, “Risk and Precaution,” transcript of remarks delivered at AEI-Brookings Joint Center conference, “Risk, Science, and Public Policy: Setting Social and Environmental Priorities,” October 12, 2004.  
[http://georgewbush-whitehouse.archives.gov/omb/inforeg/speeches/101204\\_risk.html](http://georgewbush-whitehouse.archives.gov/omb/inforeg/speeches/101204_risk.html)

Blog Post: [http://www.law.upenn.edu/blogs/regblog/2012/03/reconciling-cost-benefit-analysis-with-the-precautionary-principle.html?utm\\_source=twitterfeed&utm\\_medium=facebook](http://www.law.upenn.edu/blogs/regblog/2012/03/reconciling-cost-benefit-analysis-with-the-precautionary-principle.html?utm_source=twitterfeed&utm_medium=facebook)

*Memo 4 due*

### **Class 7 October 16 Valuing Life and Health and Cost Effectiveness Analysis**

Hahn, Robert W. & Scott Wallsten. 2003. “Is Granny Worth \$2.3 Million or \$6.1 Million?” AEI-Brookings Joint Center.  
<http://www.aei.org/article/health/is-granny-worth-23-million-or-61-million/>

Ashenfelter, Orly, “Measuring the Value of a Statistical Life”, National Bureau of Economic Research Working Paper 11916, January 2006, available on Sakai

Sunstein, Cass, “Lives, Life-Years, and Willingness to Pay” *Columbia Law Review* (2004) available on sakai

*Memo 5 due*

**Class 8 October 23, Jobs and Regulation or Climate Change and CBA (depending on guest lecture availability)**

Jonathan S. Masur & Eric A. Posner, [\*Regulation, Unemployment, and Cost-Benefit Analysis\*](#), 98 Va. L. Rev. 579 (2012).  
Available on sakai.

Institute for Policy Integrity Report, “Regulatory Red Herring: The Role of Job Impact Analyses in Environmental Policy Debates” available on Sakai

Blog post: <http://www.economist.com/node/21534767>

Or: Alternative readings if subject is climate change!

*Memo 6 Due*

Section II Case Studies

**Class 9 October 30, Labeling for Trans-Fatty Acids**

Federal Register July 11, 2003. pp.41466-41492 Available on Sakai

OMB guidance on cost-benefit analysis.  
[http://www.whitehouse.gov/sites/default/files/omb/assets/regulatory\\_matters\\_pdf/a-4.pdf](http://www.whitehouse.gov/sites/default/files/omb/assets/regulatory_matters_pdf/a-4.pdf)

*Memo 7 Due*

**November 6 – No Class!!!!!!**

Case Studies – Group Presentations

**Class 10 November 13, FDA, Food Labeling; Gluten-Free Labeling of Food File on sakai,**

**Class 11 November 20** Department of Transportation “Pilot Certification and Qualification Requirements for Air Carrier Operations”  
<http://www.regulations.gov/#!documentDetail;D=FAA-2010-0100-1352> (Use February 2, 2012 version).

**Class 12 Tuesday November 25, EPA: NESHAP for Industrial, Commercial, and Institutional Boiler Area Sources** <http://www.regulations.gov/#!documentDetail;D=EPA-HQ-OAR-2006-0790-2317>

**Class 13 December 4,** Department of Energy “Energy Conservation Standards for Standby Mode and Off Mode for Microwave Ovens”  
<http://www.regulations.gov/#!documentDetail;D=EERE-2011-BT-STD-0048-0002>

**Class 14 December 11 Wrap up**

"Rethinking Cost-Benefit Analysis" by Matthew Adler and Eric Posner *Yale Law Journal* 109:165 (1999) available on Sakai

Lisa Robinson and James Hammit, "Behavioral Economics and the Conduct of Benefit-Cost Analysis: Towards Principles and Standards" available on Sakai