MANAGING COST-BENEFIT ANALYSIS

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MANAGING COST-BENEFIT ANALYSIS

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and
PETER DAFFERN

M
MACMILLAN

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First published 1990

Published by
MACMILLAN EDUCATION LTD
Houndmills, Basingstoke, Hampshire RG21 2XS
and London
Companies and representatives
throughout the world

British Library Cataloguing in Publication Data
Walshe, Grahame
Managing cost–benefit analysis.

1. Cost–benefit analysis

I. Title II. Daffern, Peter

339.4'1

ISBN 978-0-333-48039-7

ISBN 978-1-349-20763-3 (eBook)

DOI 10.1007/978-1-349-20763-3

*To
Anthea
and
Helen*

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Preface

Is there a need for another work on cost-benefit analysis? We are content to accept the market verdict on that question. Three features of the work, however, merit consideration by prospective readers.

First, the central aspect of each case study is the detailed setting out of the calculations. Our reading of the literature convinces us that this is an area which most precursor texts have regarded as far too mundane to treat seriously. However, students expecting to manage cost-benefit appraisals in their future careers will have to acquire skills in the construction and interpretation of cost and benefit data streams. We hope that these examples will provide an introduction to those skills.

Second, the emphasis here is on cost-benefit analysis as a management aid. Enough has been said in the literature for students to appreciate that it is often difficult to quantify and evaluate the impacts assessed in an appraisal. Accordingly practitioners rarely claim to produce a definitive cost-benefit statement. Rather, the analyst attempts to disclose the 'model' which confronts the decision-maker: benefit and cost outcomes may vary with different assumptions about the physical impacts; they may vary as the values placed upon key outputs are changed; and they may vary as the time profile of the benefits and costs is altered. All the potential sources of variation in model results should be disclosed. Each case study stresses the factors tending to increase managerial discretion, as opposed to those factors limiting the range of choice.

Third, in a number of cost-benefit appraisals there are residual categories of benefit and cost which prove impossible to evaluate. Nevertheless managers will normally wish to take such non-valued impacts into account in weighing up their decision. It is possible to suggest methods which systematically integrate non-valued

impacts into the analysis. Where appropriate, we show how this can be done.

In compiling the text we received help and guidance from many kind people. In particular, we would like to thank Stephen Aldridge, Jean Entwistle, Pat Fordham, David Grundy, Edmund Hopkins, James Hunter, Bernard Meakins, Keith Povey and Anthea West. They cannot of course share the blame for any errors left undiscovered.

J.G.W. and P.A.D.