

**MEMORIAL UNIVERSITY OF NEWFOUNDLAND
ECONOMICS
(Economics 4120 WINTER 2019-2020)**

Course Name Applied Welfare Econ & Cost Benefit Analysis

Instructor Roberto Martínez-Espiñeira

E-mail rmartinezesp@mun.ca

Office AA 3087

Tel 864 3676

Website <http://www.ucs.mun.ca/~rmartinezesp>

Timetable TUE&THU 9:00-10:15

Classroom AA3095

Office hours MON 12:00 to 13:00, TUE 10:15 to 12:15 and THU 10:15 to 11:15, or by appointment

1 Calendar Description

Applied Welfare Economics and Cost Benefit Analysis investigates some current criteria of welfare theory found in the literature and then outlines the principles used in measuring changes in consumer and producer welfare. The theory of cost benefit analysis is examined and then the principles are applied to a variety of projects, some of which are proposed to take place in Newfoundland and Labrador.

2 Textbooks

- Boardman, Anthony E., David H. Greenberg, Aidan R. Vining, and David L. Weimer. *Cost-Benefit Analysis: Concepts and Practice*. 5th ed., (Cambridge University Press, Cambridge UK).¹
- Your favorite Intermediate Microeconomics textbook handy.
- Further references to individual articles are included in Section 11

3 Objectives of the course

- To enhance students' analytical and intellectual skills through the study of Cost Benefit Analysis
- To improve students' knowledge about Welfare Economics
- To equip the students with the skills needed to interpret and advise on basic cost-benefit analysis

¹You can also use any older edition of this book.

- To improve students' capacity to critically assess instances of public policy

4 Expected learning results

At the end of this course, you should be able to:

- understand the principles that inspire Welfare Economics, in particular the normative roots of the notion of economic efficiency
- understand the principles behind the theory of market failure
- interpret basic empirical examples of cost-benefit analysis and communicate the results to stakeholders
- critically assess the advantages and limitations of using cost-benefit analysis to inform public policy
- determine when a cost benefit analysis may be performed in a meaningful way and to perform basic project analyses
- identify limitations in modeling assumptions, data, or political concerns that may compromise the validity of a cost-benefit analysis study

5 Assessment

The final mark for the course comes from the coursework and the final exam (Table 1).

Table 1: Assessment summary

	date	weight	comments
3 midterms	TUE Weeks 5, 8 and Week 11	45%	Q1 20%; min(Q2, Q3) 10%; max(Q2, Q3) 15%
Essay	THU Week 12	20%	
Final Exam	TBA	35%	

Midterms will not be individually rescheduled. If you miss one, the weight will be reallocated towards the Final Exam. Late essay submissions of essays will be penalized at the rate of 5% per day.

6 Department of Economics Regulations:

- Students need to follow the MUN calendar for drop dates and deadlines
- It is not possible to drop a course once a student even sees a final exam or writes the final
- The Economics Department does NOT have Supplementary Exams.

7 Other regulations

Memorial University is committed to facilitating and promoting an accessible, inclusive, and mutually respectful learning environment. Students requiring special accommodation are asked to communicate firstly with the Glenn Roy Blundon Centre (www.mun.ca/blundon) at the earliest opportunity. University policies and procedures pertaining to accommodations for students with disabilities can be found at www.mun.ca/policy/site/policy.php?id=239

8 Academic Honesty and Plagiarism

Plagiarism involves presenting the ideas or works of another as one's own. This applies to all material (essays, reports, term projects, seminar presentations, statistical data, computer programs, research results, theses, etc..) Properly acknowledging the use of sources is a required part of scholarship and failing to do so is contrary to accepted norms of academic behaviour. Information on acceptable writing practices is available through the Writing Centre at www.mun.ca/writingcentre"

See also Section 6.12.4 of the University Calendar on Academic Misconduct: <http://www.mun.ca/regoff/calendar/sectionNo=REGS-0748>

9 Conduct of Examinations

Memorial University provides formal instructions for examinations (Calendar 6.8). For all examinations, students must be registered in the course; are permitted only to bring pens, pencils and, only if permitted, other items for the examination; are not allowed to use communication devices; and may not speak to each other unless part of the examination process. In this course, a student leaving the examination room will not be permitted to return. Please consult before the test with the instructor if you require accommodation regarding this norm. A list of instructions is available online here:

<http://www.mun.ca/regoff/calendar/sectionNo=REGS-0628>:

Information on required documentation for excused absences is available in Section 6.7.5 of the General Academic Regulations (Undergraduate) in the University Calendar:

<http://www.mun.ca/regoff/calendar/sectionNo=REGS-0601#REGS-1949>

10 Important Dates to Remember

A list of key dates to remember is available here:

http://www.mun.ca/regoff/2017-2018_University_Diary.pdf

11 Preliminary Course outline and suggested further reading

This document shows the general contents of the course, and the sequence of topics. These will be broken down into a series of lectures for each topic. For more detailed and up to date information on the lectures schedule and further reading for each section, consult the on-line *Course Schedule*.

NB: this list of topics is subject to alteration during the term.

1. Introduction to CBA and Welfare Economics. Ch. 1. (Landsburg, 1993a, 1993b, 1993c; Vining and Weimer, 1992)
2. Conceptual foundations of CBA: Welfare Economics Chapter 2 (Kelman, 1981; Landsburg, 1999, 2007; Gowdy, 2004; Landsburg, 2007)
3. Basic Microeconomic foundations. Chapter 3 (Bator 1958; Willig, 1976; Samuelson, 1954, 1955)
4. Valuation of benefits and costs in primary markets. Chapters 5-6 (Tullock, 1967; Usher 1987; Weimer and Vining 2005, Ch. 8)
5. Valuation of benefits and costs in secondary markets. Chapter 7
6. Discounting the future. Chapter 9
7. Existence Values. Chapter 13. (Common et al. 1997; Landsburg, 1999)
8. Direct Valuation. Chapter 4
9. Indirect Valuation. Chapter 15 (Parsons, 2003; Martinez-Espineira and Amoako-Tuffour, 2008)
10. Contingent Valuation. Chapter 16. (Arrow et al. 1993; Carson et al. 2001; Akter et al., 2008)
11. Shadow Prices. Chapter 17 (Boardman et al., 1997; Landsburg 2004)

References

- Akter, S., J. Bennett, and S. Akhter (2008). Preference uncertainty in contingent valuation. *Ecological Economics* 67(3), 345–351.
- Arrow, K. J., R. Solow, P. Portney, E. Leamer, R. Radner, and H. Schuman (1993). Report of the NOAA panel on contingent valuation. Technical Report 58: 4601-4614, Federal Register.
- Bator, F. M. (1958). The anatomy of market failure. *Quarterly Journal of Economics* 72(3), 351–379.

- Boardman, A. E., D. H. Greenberg, A. R. Vining, D. L. Weimer, and A. E. Boardman (1997). "Plug-in" shadow price estimates for policy analysis. *The Annals of Regional Science* 31(3), 299–324.
- Carson, R. T., N. E. Flores, and N. F. Meade (2001). Contingent valuation: Controversies and evidence. *Environmental and Resource Economics* 19(2), 173–210.
- Common, M., I. Reid, and R. Blamey (1997). Do existence values for cost-benefit analysis exist? *Environmental and Resource Economics* 9, 225–238.
- Gowdy, J. M. (2004). The revolution in welfare economics and its implications for environmental valuation and policy. *Land Economics* 80(2), 239–257.
- Kelman, S. (1981). Cost-benefit analysis: An ethical critique. *Journal of Government and Society Regulation* 5(1), 33–40. <http://www.freewebs.com/philosophyisprettyneato/Cost1.pdf>.
- Landsburg, S. E. (1993a). Choosing sides in the drug war: How the Atlantic Monthly got it wrong. In S. E. Landsburg (Ed.), *Armchair Economist: Economics and Everyday Life*, pp. 95–105. New York: Free Press.
- Landsburg, S. E. (1993b). The policy vice: Do we need more illiterates? In S. E. Landsburg (Ed.), *Armchair Economist: Economics and Everyday Life*, pp. 95–105. New York: Free Press.
- Landsburg, S. E. (1993c). Why I am not an environmentalist: The science of economics versus the religion of ecology. In S. E. Landsburg (Ed.), *Armchair Economist: Economics and Everyday Life*. New York: Free Press.
- Landsburg, S. E. (1999). Is everybody happy? The cost-benefit analysis of making folks smile. *Slate Magazine*. Posted Tuesday, Nov. 9, 1999, at 3:30 AM ET <http://www.slate.com/id/46376/>.
- Landsburg, S. E. (2004). Feed the worms who write worms to the worms: The economic logic of executing computer hackers. *Slate Magazine*. Posted Wednesday, May 26, 2004, at 5:14 PM ET. <http://www.slate.com/id/2101297/>.
- Landsburg, S. E. (2007). The theory of the leisure class an economic mystery: Why do the poor seem to have more free time than the rich? *Slate Magazine*. Posted Friday, March 9, 2007, at 1:23 PM ET <http://www.slate.com/id/2161309/>.
- Martínez-Espiñeira, R. and J. Amoako-Tuffour (2008). Recreation demand analysis under truncation, overdispersion, and endogenous stratification: An application to Gros Morne National Park. *Journal of Environmental Management* 88(4), 1320–1332.
- Parsons, G. R. (2003). The travel cost model. In P. A. Champ, K. J. Boyle, and T. C. Brown (Eds.), *A Primer on Nonmarket Valuation*, Chapter 9. London: Kluwer Academic Publishing.

- Samuelson, P. A. (1954). The pure theory of public expenditure. *The Review of Economics and Statistics* 36(4), 387–389.
- Samuelson, P. A. (1955). Diagrammatic exposition of a theory of public expenditure. *The Review of Economics and Statistics* 37(4), 350–356.
- Tullock, G. (1967). The welfare costs of tariffs, monopolies and theft. *Economic Inquiry* 5(3), 224–232.
- Usher, D. (1987). Theft as a paradigm for departures from efficiency. *Oxford Economic Papers* 39(2), 235–252.
- Vining, A. R. and D. L. Weimer (1992). Welfare economics as the foundation for public policy analysis: Incomplete and flawed but nevertheless desirable. *The Journal of Socio-Economics* 21(1), 25–37.
- Weimer, D. L. and A. R. Vining (2005). *Policy Analysis: Concepts and Practice*. Englewood Cliffs, N.J.: Pearson Prentice-Hall.
- Willig, R. D. (1976). Consumer's surplus without apology. *The American Economic Review* 66(4), 589–597.