

Method

Cost-benefit analysis

Description

The cost-benefit analysis is about comparing the costs and benefits of a project or a major activity and using this comparison as a basis for decision-making for the implementation of the project/activity. The costs and benefits are in most cases described in monetary terms to allow comparison. However, it is sometimes difficult to express welfare gains, for example, as a monetary unit. If at the end of the analysis the benefit is higher than the total cost, a project/activity should be implemented. Experience and expected values are used to determine costs and benefits in advance.

Basic procedure

1. Calculate/estimate total costs or determine expected value
2. Determine/estimate benefit or determine expected value
3. Comparison of benefits and costs
4. positive result → execute project/activity
5. negative result → withdraw project/activity

Prerequisites/Aids

Experts who determine the expected values for the benefits and costs

Effort

The effort depends on the size of the project. The bigger, the more expensive.

advantages

- Simple method
- Clear presentation
- Easy to interpret

drawbacks

- Expected values may be too imprecise
- No precise indication of welfare gain in monetary units

Further literature

- Mühlenkamp, H. (1994): *Cost-benefit analysis*, Oldenbourg Verlag, Munich, 1994
- Schöller, A. (1986): *Cost-Benefit Analysis: Fundamentals, Theory, Model*, IRB-Verlag, Stuttgart, 1986
- Sen, A. K. (2000): *The discipline of cost-benefit analysis*, in *Journal of legal studies*, Vol. 29, 2000