Cost-Benefit Analysis for Health and Environmental Policy
GLHLTH 531 / PUBPOL 607 / ENVIRON 563
Spring 2017

Time and Location: Mon/Wed 8:30-9:45 am
Room: Biological Sciences 155

Important: Participation in class will be part of your grade. If you miss class for some reason and want to see the lecture you missed, please go to this Panopto link.

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Office Hours: Monday 1:15-3:30 pm; or by appointment

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TA office hours: TBD

Course Overview

Economic analysis, or cost-benefit analysis (CBA), is an important tool for conducting public policy assessments. In simple terms, its purpose is to identify and catalog the impacts of potential projects, to quantify those impacts, and finally to convert them into money terms such that their net benefits can be determined. Since the public sector is often involved in setting health and environmental policy, this course will focus on the use and application of CBA in those areas (and also implications for analysis of social policies). It will cover topics such as the economic rationale for CBA, basic principles for assessing the economic effects of projects, techniques for valuing health and environmental impacts, intergenerational and philosophical concerns as they relate to CBA, social discounting, risk and uncertainty. We will also compare CBA with alternative commonly-used approaches, such as cost effectiveness or multi-attribute analyses.

Course Objectives

By the end of the course, students should:

- Understand the welfare-theoretic underpinnings of CBA;
- Possess knowledge of the ways in which economic and financial analysis differ, and the consequences of that divergence for public policy;
- Have operational understanding of how to conduct CBA in real world project assessments, particularly relating to the environment and health;
- Be able to critically assess common objections to the use of CBA, both practical and philosophical, and demonstrate a nuanced understanding of the strengths and weaknesses of alternative decision-making criteria;
- Have completed a well thought-out research project that may involve carrying out a CBA applied to a specific problem of interest to the student, or may represent a more in-depth study of a general issue or theme discussed during the course.
Textbooks


Optional for more technical treatment of issues:

A set of other required and optional readings will be posted on blackboard.

Expectations

Students are expected to:

- Be fully prepared to discuss readings assigned for each class period
- Attend all class sessions
- Submit assignments on time (no late assignments will be accepted)
- Engage in civil and informed in- and out-of-class discussions.

Grading

Student grades will be computed as follows:

- General participation (10%)
- 4 written assignments (40%)
- Student presentation/debate (15%)
- Final paper (35%)

All assignments will receive letter grades. If you have questions about how your grade has been determined, please feel free to ask the instructor outside of class meeting times.

General participation. Your general participation grade will be determined based on the following combination of factors: a) Attendance in class; b) Participation in class and evidence of engaging with the readings; c) Reaction and comments on other students’ presentations; and d) Contribution to participatory components of the written assignments.

Written assignments (4). Details on these assignments will be provided throughout the course. They will usually involve some quantitative analysis and will typically be submitted with short write-ups (summaries of the analysis or policy memos) plus an accompanying spreadsheet. There may be group components to these assignments.

Student presentation / debate (1). Each student will be responsible for working with 1 or 2 others to discuss a course topic in the format of a debate. Assignments to these groups and topics will be random and will occur early in the semester, once the final roster is stable. Each student will also submit a reflection on his/her assigned debate topic.

Final paper. Students have two options for the term paper. They may either conduct a CBA of a health or environmental investment of their choosing, or conduct a more detailed (philosophical or theoretical) exploration of some controversial theme or issue in CBA that they find interesting. For
the former, students will be expected to a) explain why their investment is relevant and of interest (justification), b) identify impacts of the project relative to the appropriate policy baseline (cataloguing), c) collect relevant data for the analysis (quantification), d) attempt to value those impacts as best they can (monetization), and e) carry out and discuss the results of (and challenges faced in) their analyses. For the latter, students will be expected to conduct a serious literature review or meta-analysis on their topic, discuss the nature of the controversy and debate over the issue, and explain how it relates to current policy-relevant problems.
Tentative Meeting Schedule

Unit 1: Welfare-theoretic foundations for CBA
  1. The concept of economic value (Jan. 12)
  2. Basics of welfare theory and justification for CBA (Jan. 17)
  3. Rationality, ethical issues, and critiques of CBA (Jan. 19)
Assignment 1 (Mincomp Project Case) out Jan. 17; due Jan. 31.

Unit 2: Economic vs. financial analysis
  1. Basic tools of economic / financial analysis (Jan. 24)
  2. Working w/Spreadsheets I: Nuts and bolts of economic analysis - (Jan. 26, bring your laptops)
  3. Investment decision rules and capital budgeting problem (Jan. 31); discussion of Assign.1

Unit 3: Partial versus general equilibrium effects; second-best issues (shadow pricing)
  1. Valuing costs and benefits in primary markets (Feb. 2)
  2. Valuing costs and benefits in secondary markets and in general equilibrium (Feb. 7)
  3. Working w/Spreadsheets II: Applying CBA principles (Feb. 9, bring your laptops)
  4. Shadow pricing: Capital, labor, time savings (Feb. 14/16/21)
Assignment 2 (Practicing Nuts and Bolts) out Jan. 31; due Feb. 9.

Unit 4: Reflections on discounting; intergenerational and philosophical issues
  1. Social rate of discount and Ramsey discounting (Feb. 23)
  2. Poverty weights and distributional analysis (Feb. 28)

Unit 5: Valuation (stated and revealed preference techniques)
  1. Stated preferences (Mar. 2)
  2. Travel cost method (Mar. 7)
  3. Hedonic approaches (Mar. 9)
  4. Comparison of nonmarket valuation methods; discussion of assignment 3 (Mar. 21)
  5. Applications (Mar. 23)
Assignment 3 (Valuation) out Mar. 2; due Mar. 21.

Unit 6: Risk and uncertainty; alternative decision rules under uncertainty
  1. Expected values, risk and option value (Mar. 28)
  2. Working w/Spreadsheets III: Monte Carlo and other sensitivity analysis (Mar. 30, bring your laptops)

Unit 7: Cost-effectiveness analysis and alternative prioritization methodologies
  1. Cost-effectiveness analysis (Apr. 4)
  2. Decision matrices and multi-objective approaches (Apr. 6)
Assignment 4 (Comparing CBA and CEA) out Apr. 4; due Apr. 18.

Unit 8: Research and practice with CBA: Current topics and reflections
  1. Some applications / examples (Apr. 11)
  2. How accurate is CBA and other decision methods? (Apr. 13)
Course wrap up; discussion of assignment 4 (Apr. 18)
Research project due: Saturday, May 1 at Midnight
Detailed reading list and schedule

Unit 1: Introduction and welfare-theoretic foundations for CBA

1. The concept of economic value

2. Basics of welfare theory; equivalent and compensating variation; WTA vs. WTP
   BGVM, Ch. 1-3, pp. 1-77 (by Jan. 17)

3. Rationality, ethical issues, and critiques of CBA (by Jan. 19)

Optional:

Unit 2: Economic vs. financial analysis

1. Introduction to basic toolkit for economic / financial analysis: discounting and inflation, depreciation, annualized costs, discounted cash flow analysis
   BGVM, Ch. 6, pp. 133-166 (by Jan. 24)

2. Investment decision rules (by Jan. 31)

3. The capital budgeting problem (by Jan. 31)

Unit 3: Partial versus general equilibrium effects; second-best issues (shadow pricing); market imperfection

1. Valuing benefits and costs in primary markets (by Feb. 2)
   BGVM, Ch. 4, pp. 78-114

2. ...in secondary markets (by Feb. 7)
   BGVM, Ch. 5, pp. 115-132

3. Complete economies: input-output analysis; general equilibrium
Optional:

4. Shadow pricing: capital, labor and time savings
BGVW, Ch. 16, pp. 406-442. (by Feb. 14)

Optional:
L-G: Ch. 1 (Drèze and Stern)
L-G: Ch. 2 (Sen)

Unit 4: Reflections on discounting; intergenerational and philosophical issues

1. The social rate of discount and Ramsey discounting (by Feb. 23)
BGVW, Ch 10, pp. 238-273.
Optional:

2. Poverty weights and distributional analysis (by Feb. 28)
BGVW, Ch 19, pp. 489-506.

Unit 5: Approaches to nonmarket valuation (stated and revealed preferences)

1. Contingent valuation methods (CVM) (by Mar. 2)
BGVW, Ch. 15, pp. 372-405.
Optional:
2. Existence values (by Mar. 7)
BGVM, Ch. 9, pp. 224-237.

3. Revealed preference methods: travel cost and hedonic models

Optional:

4. Reflections on other approaches: productivity approach; cost of illness (by Mar. 21)

Unit 6: Risk and uncertainty; alternative decision rules under uncertainty

Expected value and option value, tools for sensitivity analysis (Monte Carlo analysis) (by Mar. 28)
BGVM, Ch. 7-8, pp. 167-201.

Optional:

Unit 7: Cost-effectiveness analysis and alternative prioritization methodologies

BGVM, Ch. 18, pp. 464-488. (by Apr. 4)
Unit 8: Research and practice with CBA: Current topics and reflections

1. How can it be done? Case studies of recent CBAs and challenges raised in the literature (by Apr. 11)
   Optional:

2. How accurate / useful is CBA? (by Apr. 13)
   BGVM, Ch. 20, pp. 507-520