

PROJECT ANALYSIS, ECONOMICS 525A
Fall 2017

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LEVEL

In an undergraduate program, this course is considered to be equivalent to a 400-level course and a substitute for a 400-level course. The designation as a 500-level course is to allow graduate students to take it. It does not affect the level of difficulty.

MATERIAL

Project Analysis, or Cost-Benefit Analysis, is a consistent way to evaluate actions (“projects”) in terms of their net contribution to social welfare. It establishes social accounting prices for goods and services that are not priced or are badly priced in markets. The idea is “to get the right prices”, a phrase often heard in economics. The social accounting prices are used in an expanded form of accounting that is comparable to business accounting. The analysis can be an input to social decisions about whether or not to invest in a project and at what level.

Cost-Benefit Analysis draws together the main concepts studied in economics, especially microeconomics. Its aim, and the aim of the course, is to apply a wide variety of economic concepts to practical evaluations and decisions.

Main Reference

I do not assign a textbook because the lectures are from various sources. A good reference is *Cost-Benefit Analysis: Concepts and Practice*, any edition, by Boardman, Greenberg, Vining and Weimer, Prentice-Hall. It is well-written and reasonably easy to follow because it tends to use graphical analysis.

Depending on your interests and background, you can supplement the reference with readings on welfare economics, such as the chapter on Welfare in Varian’s (or any other) graduate microeconomics textbook or works on Public Economics.

PLAN

The book is a good introduction, covering some important topics well. Because its techniques are mainly graphical, the type of equilibrium studied is partial equilibrium. There are certain gaps for a course at this level. I try to fill them in class. My plan is to introduce the subject, first quite generally and then more specifically with lectures that are fairly close to the book. Then I introduce the theory behind shadow prices, which are the accounting prices for the determination of welfare. I do a number of specific examples that illustrate important questions in cost-benefit analysis.

EVALUATION

Evaluation consists of (a) a paper to be presented to the class toward the end of the term and handed in for marking before the end of the term, as well

as (b) a formal discussion of another student's paper. A version of your paper should be available to your discussant a week before the date of your presentation. You can use the comments you receive at your presentation to polish your paper before submission.

The topic of the term paper is open. It can be a particular cost-benefit analysis if you have access to data. Other possibilities are a theoretical discussion or survey, a critique of one or more cost-benefit analyses in the literature, a treatment of methods of non-market valuation, or a topic to be agreed upon with the instructor. You should discuss your paper with the instructor before you invest time in it or if you have any difficulties.

Please present your paper bound by a single staple at the top left and with no cover or binding. If the paper is printed on both sides, please ensure that both sides can easily be read. Please keep a copy of the paper for your own records.

Statements

McGill University values academic integrity. Therefore, all students must understand the meaning and consequences of cheating, plagiarism and other academic offences under the code of student conduct and disciplinary procedures.

In the event of extraordinary circumstances beyond the University's control, the content and evaluation scheme in this course are subject to change.

Students in this course have the right to submit in English or in French any written work that is to be graded.