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Per-Olov Johansson and Bengt Kriström
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COST–BENEFIT ANALYSIS FOR PROJECT APPRAISAL

Written by two leading experts, this is a compact guide to the key tools and methods necessary to carry out cost–benefit analysis (CBA). The authors use modern economic tools to obtain general equilibrium cost–benefit rules that can be used to evaluate small projects, as well as large and even megaprojects. Intertemporal issues like discounting, the shadow price of capital, and the treatment of risk are covered, and a state-of-the-art summary of available methods for the valuation of unpriced commodities is also included. In addition, the book provides detailed expositions of the marginal cost of public goods (MCPF), the marginal excess burden of taxes (MEB), and second-best evaluation rules, and shows how these concepts are interrelated. The importance of undertaking due diligence in evaluations is highlighted. This is an excellent toolkit for graduate students learning about the principles of CBA, and is a useful guide for government officials and policy makers.

PER-OLOV JOHANSSON is Emeritus Professor in the Department of Economics at Stockholm School of Economics. He has published four books with Cambridge University Press: *The Economic Theory and Measurement of Environmental Benefits* (1987), *Introduction to Modern Welfare Economics* (1991), *Cost–Benefit Analysis of Environmental Change* (1993), and *Evaluating Health Risks: An Economic Approach* (1995).

BENGT KRISTRÖM is Professor of Resource Economics and Head of the Department of Forest Economics at the Swedish University of Agricultural Sciences, Umeå. He has been a consultant to the Swedish Government and to the OECD on many occasions, and has been a member of the Prime Minister's Commission on Sustainability and Chair of the Expert Group on Environmental Studies at the Ministry of Finance.

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Preface

The background to this manual is multifold. The authors publish on theoretical issues and teach graduate courses in cost–benefit analysis (CBA) and similar techniques, domestically as well as internationally. They have also been involved in a considerable number of empirical cost–benefit studies: forestry, labor market policies, plant relocations, alternative fuels for vehicles, river reregulation, and so on. In addition, the authors have been members of academic panels reviewing cost–benefit manuals produced by different national and international organizations and banks. Over time our interest in putting together our experiences on theoretical and empirical appraisals of CBA has evolved. In particular, tools are available to today's cost–benefit practitioners that were unavailable a decade or so ago. The world is also different, with flexible exchange rates (for some, but not for others), deregulated capital markets, liberalized trade flows, and so on, in comparison to what it was a few decades ago when the classic cost–benefit manuals were written. In addition, environmental concerns and concerns for the sustainability of resource stocks play a much more central role today. These are some of the reasons for providing a compact manual for CBA drawing on recent research results. We believe that a manual of this kind could be useful for graduate students in economics and for those evaluating projects and policies at governments, international organizations, and consulting firms. In particular, the manual provides a very straightforward toolkit that should be useful to the practitioner, particularly since virtually every actual evaluation provides the appraiser with surprises and effects that are not covered by existing "cookbooks."

We are grateful to Martin Hill for providing us with references to computable general equilibrium (CGE) studies that are of relevance for CBA, and to Ginés de Rus for providing suggestions with respect to the measurement of benefits in transport studies. Karl-Gustaf Löfgren read an earlier draft and provided many useful comments and suggestions. Thanks to Maria Hedvall for pointing out an embarrassing error in an earlier draft of the manuscript. Three anonymous referees

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Stockholm and Umeå

Per-Olov Johansson
Bengt Kriström

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