
Learning from Practice: Benefit-Cost Analysis and Economic Impact Analysis

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Executive Order 12893

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Presidential Documents

Title 3—

Executive Order 12893 of January 26, 1994

The President

Principles for Federal Infrastructure Investments

A well-functioning infrastructure is vital to sustained economic growth, to the quality of life in our communities, and to the protection of our environment and natural resources. To develop and maintain its infrastructure facilities, our Nation relies heavily on investments by the Federal Government.

Questions?

- What do we learn from conducting BCA versus EIA?
- What do the resulting measures tell us about projects? On a relative basis? Absolute basis?

BCA: the Practice

- Changes in travel demand
- Changes in travel costs
- Monetize user benefits
- Estimate changes in non-user impacts
- Monetize non-user impacts
- Cost and benefit streams
- B/C ratio, NPV

EIA: the Practice

- Changes in travel demand
- Changes in travel cost
- Changes in travel cost to who?
 - Households > changes in consumption patterns
 - Industries > changes in production and consumption patterns
- Direct impacts (include construction costs?)
- Indirect & Induced impacts
- Total economic impacts (jobs, GRP, income)

What Have We Learned?

- **BCA:**
 - We've learned about the welfare of users and nonusers, and how these relate to project costs
- **EIA:**
 - We've learned about how the project changes costs, how these costs accrue to users, and how users change their economic behavior in response...

Economic Efficiency

- **BCA:**
 - Efficiency is determined by whether a project's expected benefits exceed its cost. On a relative basis, projects with higher NPVs and B/C ratios are unambiguously better
- **EIA (current practice):**
 - Not much to say on efficiency, especially when costs contribute to total economic impacts

Analysis as Information Reduction

