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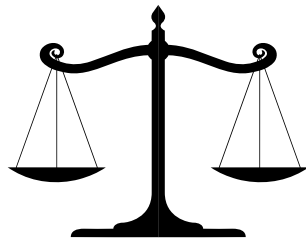
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Cost-benefit analysis – taken to a whole different level

By [João](#) on June 16, 2014 at 8:00 am

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Weighting the costs and benefits

Tired of those simple “cost-benefit analysis” exercises? Feels like they are about too simplistic settings?

Of course, they are about simplified settings, in order to allow feasible modelling in a few minutes, either during class or during exams. Hopefully, their simplicity still suits the purpose of conveying the main message: comparing the pros and cons of a decision or scenario. Typically, your lecturer (and yourself) supplement the insights from calculations with additional, often qualitative considerations, to enrich the quantitative analysis.

Real life, of course, is much more complex. And difficult. And exciting.

This article takes the “cost-benefit analysis” to a whole different level: the level of the US regulatory process. The author, Cass R. Sunstein (previous head of the Office dealing with this topic in the White House), presents his description of how cost-benefit analysis became a broadly shared and accepted framework to orient the US regulatory process, regardless of the political orientation of the last 5 presidents. He presents his interesting and brief account of how the technique was evaluated and implemented during the last 3 decades.

And although the author is clearly enthusiastic about this technique, he acknowledges difficulties and potential limitations. The difficulty of quantifying costs and benefits, and overall uncertainties, recommend specifying a range of values, instead of a single number. There are scientific and economics controversies without a clear answer. And there are on-going debates about whether topics like homeland security and financial regulations should be within the scope of applicability of the technique. The many comments posted by readers provide plenty of further food for thought, and many diversified views.

So, the next time you think “this is too simplistic”, may you’ll think “I think I prefer it like this, for exam purposes...”.

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