

Notes on applications of Cost-Benefit Analysis

Cost-Benefit analysis is conducted by asking multiple questions in order to determine the full scope of the analysis. To conduct this, the following has to be asked:

- 1) Who can influence the outcome? How can they influence it and at what cost?
- 2) What would happen if the relevant parties are merged into one?
- 3) If there were zero transaction costs in exchange, who would end up with the entitlements? This part compares costs and benefits and decides on the efficient solution.
- 4) How will individuals respond in the future to the law? Does the law create incentives for efficient outcomes? What would the individuals do to prevent damages? At what costs?

Incorporating this into an example, let us consider the case of the tiger attack in the San Francisco Zoo. It occurred right after the zoo closed. The tiger jumped over the moat and gravely injured one of the guys. It also roamed around the zoo looking for the others. Authorities eventually came and shot the tiger to stop it from attacking other zoo patrons. To determine who is liable, we can conduct a cost-benefit analysis by answering the questions above. If you look up the information about this court case, you will see that the zoo and the families of the guys who were attacked by the tiger settled outside of court so determining who is liable in this case depends on the true “information,” considering that much of the “news” revolves around suspicions and accusations (the guys were drunk and the moat of the zoo was much smaller than was required).

Let us go over another example. Much of the water that is supplied to Southern California comes from Northern and Central California. If an earthquake occurs that damages the waterway that you see by the I-5, who should be held liable? Again, going through the cost-benefit analysis questions can help solve this. Before, Los Angeles bore most of the costs of creating the water passage and may again be required to pay for much of the repair if a situation such as this does occur. Ignoring the farmers that also benefit from these waterways, since Southern California is the region that benefits from these water passages, it should fund the repairs, not Northern or Central California.

Finally, we can also consider the case of narcolepsy and driving. Should a narcoleptic driver be allowed to have a license. States have different laws regarding this issue. See <http://everythingnarcolepsy.blogspot.com/2006/05/driving-safety.html>