



THE TIMES 100

BUSINESS CASE STUDIES

Teacher guide

Cost-benefit analysis

United Utilities

Where does the lesson fit?

This session would fit in a Finance module as an introduction to investment decision making. It could be followed by sessions about alternative investment appraisal techniques such as Payback, AARR and Net Present Value. It could also serve to introduce cost-benefit analysis within an Economics course.



Suggested resources & activities related to cost-benefit analysis and United Utilities.

- Full United Utilities case study
- Cost-benefit analysis PowerPoint
- Investment decision making lesson resources
- United Utilities crossword
- United Utilities word search

Suggested timings for the session

10 mins	Starter e.g. United Utilities word search
5 mins	Use the Cost-benefit analysis PowerPoint to discuss the topic
5 mins	Read the case study
10 mins	Questions
20 mins	Task – cost-benefit analysis
10 mins	What have you learned?

Answers to questions

1. What is cost-benefit analysis?
Cost-benefit analysis (CBA) is an investment decision making tool that considers the social costs and social benefits of an economic decision.
2. What is meant by social costs?
Social costs are the costs of economic activity to society as a whole. These include private costs and external costs.

$$\text{Social costs} = \text{private costs} + \text{external costs}$$



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3. Explain why firms, like United Utilities, use cost-benefit analysis.
Firms will use cost benefit analysis to:
 - Consider both current and future implications of a business decision
 - Consider the impacts of business decisions on a range of stakeholders
 - Persuade stakeholders of the benefits of a chosen course of action
 - Help make a decision between different possible options

4. Analyse the difficulty firms may face when carrying out cost-benefit analysis.
Cost-benefit analysis can be tricky because:
 - It may be difficult to assign values to external costs and benefits, particularly where there is no market price available e.g. impacts upon the environment. For example, what cost would be assigned to the carbon emissions from the Millom Project?
 - There may be distributional concerns – the impact on different individuals or groups may vary.
 - The process of CBA can be very costly and time-consuming

What have you learned?

Expected learning is likely to include:

- Definition of cost benefit analysis
- Definitions of private, external and social costs and benefits
- How cost-benefit analysis is carried out
- The benefits of using cost-benefit analysis
- The difficulties of using cost benefit analysis