

## **EXAMPLE 16-2**

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### **An Unsound Analysis of a Public Works Proposal**

#### **Facts of the Case**

A certain consulting firm was employed to make a benefit-cost analysis of a proposed county expressway project. The conclusion was that annual benefits would be \$400,000 and annual costs would be \$1,000,000, yielding a B/C ratio of 0.4. On this basis, the project did not appear to be justified.

However, the firm had a bright idea. They proposed that the supervisors make an effort to have this expressway incorporated into the interstate highway system. If this could be done, 90% of the cost would be paid by the federal government. They advised the supervisors that this would reduce the local annual costs to \$100,000 and that the B/C ratio would then be  $\$400,000 \div \$100,000 = 4.0$ .

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