DSVOL

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KENYATTA UNIVERSITY
SCHOOL OF ECONOMICS
DEPARTMENT OF APPLIED ECONOMICS
SCHOOL OF VIRTUAL AND OPEN LEARNING
EAE 412 PROJECT APPRAISAL
2019/2020 ODEL 2

Instructions: Answer questions ONE and any other TWO Questions.

Question One

a) Distinguish between the following terms as used in project appraisal (6 marks)

- i) Project outputs and project outcomes
- ~~ii) Cost utility analysis and cost-benefit analysis~~
- iii) Tradable and non-tradable good
- iv) Technical and managerial feasibility

Private discount rate and social discount rate

b) Explain the principal stages of the project cycle ~~management~~ (10 marks)

c) State and briefly explain whether the following statements are TRUE or FALSE or UNCERTAIN (8 marks)

- i) Beta probability distribution gives less weight to the central value in relation to the extreme values, than in the case of triangular distribution
- ii) Taxes must be disallowed in the computation of social costs and benefits
- iii) Shadow prices are not equal to the market prices under the conditions of imperfect markets
- iv) For an externality to exist, it must be that the good or a service is not traded in the market.

d) Describe the various considerations in the shadow pricing of labour inputs in Social Cost Benefit Analysis (6 marks)

Question Two

a) A state agency is considering undertaking a health project in Homa Bay County of Kenya. The project will involve construction of clinics and theatres, training of health and community workers, and supply of medicine. The organization insists that the proposed project must be evaluated before a decision is made on whether to go ahead with the project or not.

- i) Identify some of the benefits and costs in the project that could be relevant in evaluating the project (6 marks)
- ii) The management is proposing using the Benefit –Cost Ratio approach to the appraisal of this project. What are the merits and demerits associated with this method of appraisal? (6 marks)

b) Define the Arrow-Lind Theorem and state the key assumptions underpinning it (8 marks)

Question Three

a) The County Government of Machakos is planning to initiate a farming programme along Thwake river for production of French beans. A consultant has approached you help the government draft a project proposal. In line with the statement of the problem, project justification, objectives strategies, project duration, and budget provide a draft of project proposal to the consultant. (10 marks)

b) Explain how problem identification and analysis are conducted in the framework ~~of project identification under~~ the Project Cycle Method (10 marks)

Question Four

a) Explain any five criticisms of the Little-Mirrlees approach of valuation of different goods and services (10 marks)

b) You have been asked to advise one of the counties on the best policy to choose from among four policies based on the forecast on the future economic outlook. The information below provides the forecast rate associated with different rates of return

Policy option	Agricultural Growth			
	1%	2%	3%	4%
A	0	6	14	20
B	8	8	8	8
C	0	2	6	6
D	14	12	10	6

i) Suppose the management is confident about the Agricultural Growth, which policy will they choose? (2.5 marks)

ii) Suppose the management is pessimistic about the Agricultural Growth, which policy will they choose? (2.5 marks)

iii) Suppose the policy makers are unable to predict the Agricultural Growth rate, which policy will they choose? (2.5 marks)

iv) Suppose the policy makers are 90% pessimistic about the Agricultural Growth, which policy will they choose? (2.5 marks)

Question Five

a) Explain clearly how cost benefit analysis is different from social cost benefit analysis (10 marks)

b) Explain the importance of controllability and endorsement in management of projects (10 marks)