

PROJECT APPRAISAL AND INVESTMENT ANALYSIS

LECTURE 7

SOCIAL VS. ECONOMIC BENEFITS AND SELECTION OF PROJECTS

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Economic benefits and Net benefits and Social benefits of Project

ECONOMIC BENEFIT

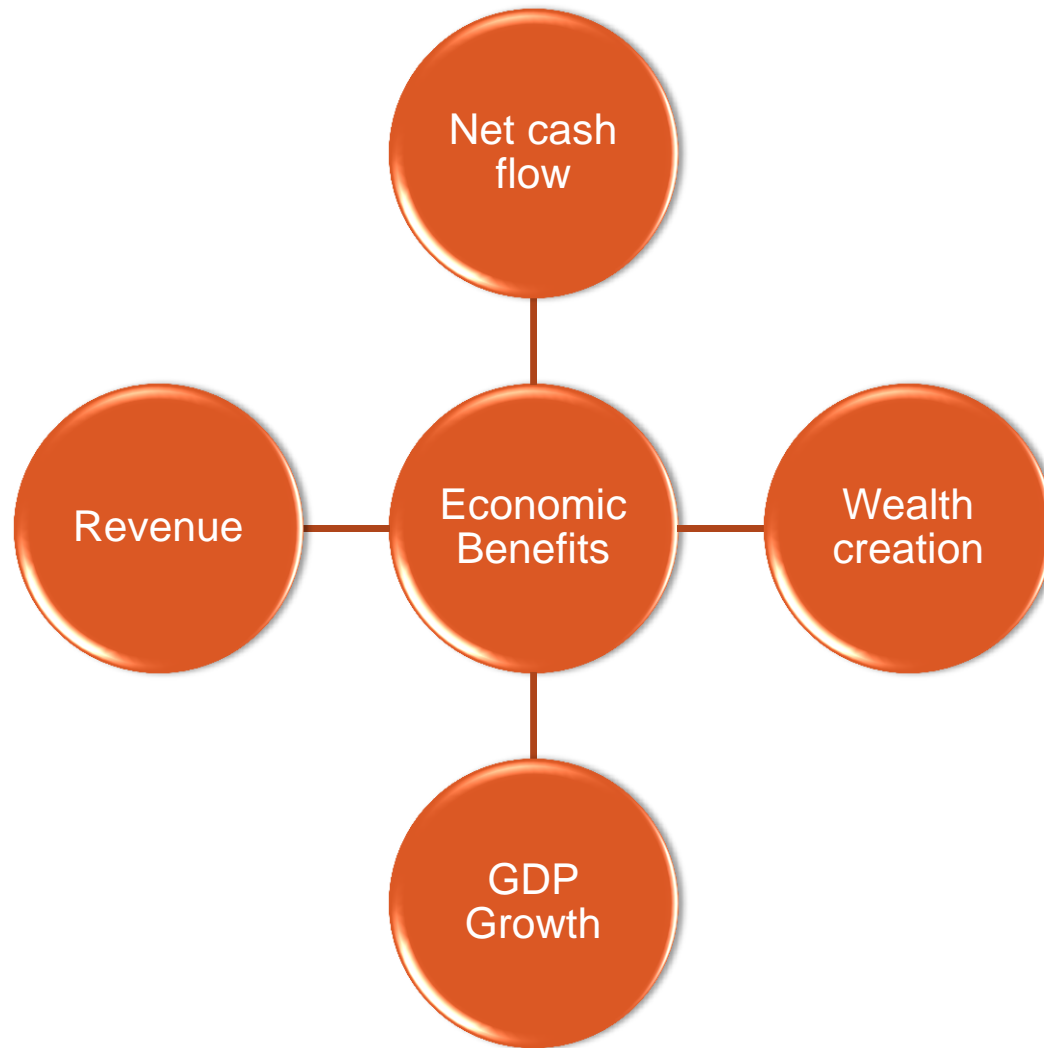
An economic benefit is any benefit that we can quantify in terms of the money that it generates.

For Example: Net Income and Revenues are the examples of economic benefit.

ECONOMIC BENEFIT CONT.

An economic benefit may also refer to a reduction in something such as a cost. For example, lower raw materials or labour costs are Economic benefits. When the price of oil goes down ,thousands of companies and millions of people enjoy the Economic Benefits

When company directors are looking at a proposal , they carefully consider its economic benefits . If the proposer did not include the Economic Benefits in the proposal , the directors are much less likely to approve it.



ECONOMIC BENEFIT CONT.

How to measure economic benefit

- Net cash flow
- Wealth creation
- GDP growth rate
- Revenue

NET CASH FLOW

Net cash flow is the profitability measurement that represents the amount of money produced or loss during a period by calculating the difference between from cash inflow from out flow.



$$\text{Net Cash Flow Formula} = \text{Total Cash Inflows} - \text{Total Cash Outflows}$$



NET CASH FLOW

An indicator of a firm's financial strength providing it with the ability to operate, develop new product, expand into new markets, invest in research, reduce debt and increase shareholder value.

WEALTH CREATION

Wealth creation is created by a business organization that provides a unique value to its environment by adding more value to its outputs than the cost of all resources used to produce those outputs.

Wealth requires a uniqueness and efficiency. If the offering is unique and efficiently produced.

Enterprises are paid to create wealth, not control costs. (Drucker, 1995)

WEALTH CREATION CONT.

Formula for Wealth Creation

- There is a simple well known formula for wealth creation

$$FV = PV(1+r)^n$$

The more you save, makes a difference

The more you earn, makes a difference

The sooner you start, makes very big difference

REVENUE

The amount of money that the producer receives in exchange for the sale proceeds is known as revenue.

Example

If a firm get 16000 from sale of 100 chairs then the amount of RS 1600/- is known as revenue.

$$\text{Sales Revenue} = \text{No. of unit sold} * \text{Average Selling price}$$

TYPES OF REVENUE

Operating revenue is revenue you receive from your business's main activities, like sales. If you own a landscaping company, your business's operating revenue is derived from your services. Or, if you own a pie shop, your business's operating revenue comes from selling the pies.

OPERATING REVENUE



Revenue you receive from your business's main activities

NON-OPERATING REVENUE



Money earned from a side activity that isn't related to your business's day-to-day activities

TYPES OF REVENUE

Non-operating revenue is the portion of an organization's income that is derived from activities not related to its core business operations.

It can include dividend income, profits or losses from investments.

Non-operating revenue is more inconsistent than operating revenue. You make sales frequently, but you might not consistently earn money from side activities.

GDP GROWTH RATE

The GDP growth rate measures how fast the economy is growing .

The GDP measures the economic output of a nation

Economic growth is an increase in the production of goods and services over a specific period.

NET BENEFIT

Net benefits are commonly used in cost-benefit analysis to determine whether a project should be funded . Calculate net benefits by subtracting the sum of direct and indirect costs from the sum of direct and indirect benefits. Cost and benefits are expressed in equivalent measure so that investors can see whether the benefits would outweighs the costs enough to make pursuing the project worthwhile.

Net Benefit = Total Direct Cost + Total Indirect Cost

CALCULATE COST

All costs that are associated with a project , including direct and indirect costs . As with benefits , direct cost are those that are tied directly to a project , like the costs of purchasing a new piece of equipment.

Indirect costs would be incurred as a result of the project , such as the need for maintenance supplies and services.

CALCULATE BENEFIT

All benefits that the project would produce. This includes direct and indirect benefits. Direct benefits can be attributed directly to a project, such as the specific items that a new piece of equipment would produce.

An indirect benefit is a return that cannot be directly observed but is nonetheless realized.

Health insurance, Life insurance, Social security,
Educational benefits and Childcare

SOCIAL BENEFIT & COST OF PROJECT

Social benefit is the total benefit to society from producing or consuming a good/service.

Social Benefits are private benefits gained by individuals directly involved in a transaction together with the external benefits gained by the third parties not directly involved in the transaction.

Social benefit= Private benefit + External Benefit

Social Cost = Private Cost + External Cost

REFERENCES

<https://managingresearchlibrary.org/glossary/wealth-creation#:~:text=Wealth%20is%20created%20by%20a,require s%20a%20uniqueness%20and%20efficiency.&text=Enterpris es%20are%20paid%20to%20create%20wealth%2C%20not%20control%20costs.>