Session 2.2
Demand Analysis

Introductory Course on Economic Analysis of Investment Projects
5-9 July 2010
Demand Analysis

How much of the output is wanted? How much are users willing to pay for it?

- **Output Level**
  - Project design should be demand-driven
  - Identify demand shifting factors
  - Project growth rate of demand, influence of demand shifters (size of project)
  - Demand and tariff

Basis for identification of project size, timing and overall benefits, tariff and financial sustainability
Demand Analysis

- Demand and supply for publicly provided goods and services:
  - Decided through political process
  - Decoupling between burdens and benefits
  - Difficulty in measuring outputs
  - Single source production
  - Lack of exit mechanism
Measuring Benefits in an Efficient Market with No Price Effects

Revenues = Benefits
Measuring Benefits in an Efficient Market with Price Effects

Revenues + SS Change = Benefits
Estimation of Demand and WTP

- Demand function estimation using time series data
- Contingent Valuation
  - Introduction
  - Design Issues
  - Survey Instrument, Implementation
  - Validity Tests
  - Estimation of MWTP, policy simulations, tariff analysis