Market methods (MM)
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Market Methods

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1 Introduction

Market methods can be used to value goods and services that are affected by the policy and directly traded as a market commodity (e.g. square metres of housing supplied times average house prices, or cubic metres of drinking water delivered times the drinking water price paid by consumers). They can be used to compute both benefits and costs of a proposed policy with sustainability implications. These approaches generally compare market prices and quantities before and after the policy is implemented.

2 Methodology

Consider, for example, a new agricultural policy that restricts the use of a certain type of pesticide and mandates extensive recordkeeping on the part of the growers about pesticide applications. The growers would experience two categories of cost. The first is the foregone crop yield due to the restricted application of the pesticide. It is measured as the market price of the crop, multiplied by the change in the output of that crop. The second is represented by the cost of hiring a person to do the required paperwork. If the price of the produce rose as a result of the policy, consumers would experience welfare losses. These would be estimated as the loss in consumer surplus associated with higher prices and smaller quantities, and would be estimated from the market demand and supply function.

Market methods are attractive, because they reflect what actually happened on markets. To implement market methods, however, one needs to be able to observe precisely prices and quantities traded before and after the policy. It is also necessary for the researcher to be able to separate the effects of the policy from other factors unrelated to the policy that influence prices. The data requirements for market methods are, therefore, rather stringent.

3 Process

not described yet.

4 Review

4.1 Evaluation results

Not described yet.

4.2 Experiences

Not described yet.

4.3 Combinations

The tool provides input for Cost–benefit Analysis. The tool can be used with regulatory impact assessment and multicriteria analysis. Alternative tools are other non–market valuation methods.
4.4 **Strengths and weaknesses**

**Strengths:**
- Market methods reflect what actually happened on markets

**Weaknesses:**
- Effects of other factors on market could interfere
- Data requirements are rather stringent

4.5 **Further work**

Not described yet.

4.6 **References**

Not described yet.