



## TOOLS: For Collection

# Contingent Valuation

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### Targeted Use

This is both an economic tool and community analysis tool. It is considered most useful during the strategy development phase, where it is often used in deciding how much to charge for a good or service. It is a part of a family of tools that addresses issues of benefits not traded in markets; for example, environmental quality and historic cities.

The method attempts to link planning options to their affordability, thus allowing more realistic choices. It is useful for determining pricing of services related to the standard provided.

### Description of technique

The approach is based on interviews with a representative sample group in an area. The interview consists of:

- 1 - A detailed description of the good(s) being valued and the hypothetical circumstance under which it is made available to the respondent. A market model is constructed in great detail which is communicated in the form of a scenario that is read by the interviewer during the course of the interview. The market is designed as plausible as possible: it describes the good to be valued, the baseline level of provision, the structure under which the good is to be provided, the range of available substitutes, and the method of payment. Respondents are usually asked to value several levels of provision.

- 2 - Questions which bring out the willingness to pay for the good to be provided.

- 3 - Questions about the respondent characteristics (for example: age, income), their preference relevant to the good(s) being valued, and their use of the good(s).

This information is then generalized for a representative group of people.

### Limitations

The results are dependent on respondents understanding and being able to visualize the circumstance of the good being considered. Some argue that it results in individual rather than social evaluations about the importance of different options, and that it can only be used for environmental goods and services that can be charged for.

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### Sample survey

(From: Using Surveys to Value Public Goods: The Contingent Valuation Method. Mitchell, Robert Cameron, and Carson, Richard T. 1989. Resources for the Future, Washington, D.C. Pp 4-5.)

This is what the interviewer would say: (Note: the survey has been shortened, and not all the questions have been included)

“This research is designed to more closely examine some of the trade-offs between industrial development, recreation, and the environment in the Lake Powell area. In connection with these objectives, I would like to ask you a few questions to see how you feel about environmental quality and its future in this area.

There are plans to construct a large electric generating plant north of Lake Powell. This plant is expected to be at least as large as the Navajo Plant on the south side of the lake.

Have you noticed the Navajo Plant or its smokestacks? \_\_\_\_\_ Yes \_\_\_\_\_ No

Depending on exactly where and how a new plant is constructed, it could have a significant effect on the quality of the environment. If the plant is built near the lake, it could be visible for many miles up and down the lake. If air pollution is not strictly controlled, visibility in the area may be significantly affected. These photographs (interviewer shows photographs) are designed to show how a new powerplant on the north side of the lake might appear. Situation A shows a possible plant site but assumes that the powerplant would be built at some distant location, not visible from the lake area. In situation B the powerplant is easily seen from the lake, but emits very little smoke; visibility is virtually unaffected. Situation C is intended to show the situation with the greatest impact on the environment of recreationists in the area. It is easily seen from the lake, and the smoke substantially reduces visibility.

Vacationers, of course, spend considerable amounts of money and time and effort to equip themselves with vehicles, boats, camping, and fishing gear, and for traveling to the destination of their choice. It is reasonable to assume that the amount of money you are willing to spend for a recreational experience depends, among other things, on the quality of the experience you expect. An improved experience would be expected to be of greater value to you than a degraded one. Since it does cost money to improve the environment, we would like to get an estimate of how much a better environment is worth to you.

First, let's assume that visitors to the Glen Canyon National Recreation Area are to finance environmental improvements by paying an entrance fee to be admitted into the recreation area. This will be the only way to finance such improvements in the area. Let's also assume that all visitors to the area will pay the same daily fee as you, and all the money collected will be used to finance the environmental improvements shown in the photos.

Would you be willing to pay a \$1.00 per day fee to prevent Situation C from occurring, thus preserving Situation A? \$2.00 per day? (increment by \$1.00 per day until a negative response is obtained, then decrease the bid by 25 cents per day until a positive response is obtained, and record the amount.) \_\_\_\_\_ \$/day

Would you be willing to pay a \$1.00 per day fee to prevent Situation B from occurring, thus preserving Situation A? (repeat bidding procedure)

(Answer only if a zero bid was recorded for either question above.) Did you bid zero because you believe that:

\_\_\_\_\_ the damage is not significant

\_\_\_\_\_ it is unfair or immoral to expect the victim of the damage to have to pay the costs of preventing the damage

\_\_\_\_\_ other

**Resources**

Using Surveys to Value Public Goods: The Contingent Valuation Method. Mitchell, Robert Cameron, and Carson, Richard T. 1989. Resources for the Future, Washington, D.C.

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