




Non Market Valuation



Description

Non-market valuation is the name given to a group of economic approaches that are used to value goods and services that are not traded in competitive markets. The purpose of many or most non-market valuations is to obtain data suitable for input into [cost-benefit analyses](#) , which are used to compare the values from alternative 'uses' of a resource. While in most cases non-market valuation is concerned with 'use' values, there are also 'non-use' values such as existence value, option value and quasi-option value¹.

The major economic approaches to measuring the value of environmental goods developed over the last 70+ years, all use indirect or inferential pricing methods. Economic non-market valuation approaches are based on estimates of consumer preferences, using either **expressed preferences** or the preferences stated by individuals when directly asked to value an environmental or health good within a hypothetical market setting, or **revealed preferences**.

The method of expressed preferences involves questioning individuals directly using questionnaires to construct the hypothetical market and to provide the basis for eliciting individual's willingness to pay. The information obtained is an individual estimate and requires aggregation in order to obtain societal estimates.

The method of revealed preferences uses available statistics of behaviour ('revealed' through actual choices made by individuals in the marketplace) to infer underlying preferences. The method of **implied preferences** looks at societal institutions as a means of reflecting current values, while the method of natural standards uses geological time rather than historical time as a determinant of acceptable risk.

The most common technique used for looking at **expressed preferences** in New Zealand is [contingent valuation](#) , while the main techniques for studying **revealed preferences** is the [travel cost method](#) .

The 'values' derived using non-market valuation techniques are often used as input to cost-benefit analyses. Cost benefit analysis is a decision making tool used to compare options such as different activities or alternative uses of a resource. Thus non-market valuation is used as part of a comparative analysis, or a decision making tool.

How and where the tool is used

See Contingent Valuation and Travel Cost Method.

Non-market valuation techniques are used primarily within cost-benefit analyses and therefore suffer from the limitations of cost-benefit analysis. While they can accommodate a range of different spatial contexts the techniques are generally limited to a 'snapshot-in-time'. Different approaches can be used to estimate individual and aggregated valuations. Non-market values are not 'absolute' and need to be compared against other values in the same context.

Application

Non-market valuation tends to be resource intensive. It is a good way of getting some form of monetary estimate of the 'value' of a resource that can be compared with market values. It can be used as a means of gauging community interest in an activity or resources. There are limitations as to the type of values that can be addressed (e.g. economic analysis usually limits intrinsic value to 'non-use' values, whereas ecologists take an ecosystem approach).

There is a lack of 'best practice' application. It is important to ensure that the objectives of the 'client' and abilities of the model are aligned - often this is not the case.

Our evaluation

Non-market valuation tools are useful for getting some kind of comparative measure of value of an activity or resource, most commonly used for input into cost-benefit analyses, or for comparison with market values (e.g. comparing the value of an area in its natural state, compared with a 'market' value if it were to be developed). Therefore they have value in developing integrated tourism models, but should be used

¹ Economists sometimes refer to these non-use or passive use values as 'intrinsic', however, many biologists and ethical philosophers would argue that 'real' intrinsic value is not based on any measure of human preference.



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carefully because they rely either on the development of hypothetical markets, or on inference from past statistical measures that may not reflect current 'values'.

The quality of current non-market valuation applications is an issue. Many projects have been under-resourced and do not conform to best practise guidelines, which means that the resulting values are suspect.

Often the outcomes (constrained by the technique) do not meet the client's objectives - this needs to be explored beforehand rather than afterwards.