

what is cost escalation? Discuss the causes and impact of cost escalation of an on-going project.

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Cost escalation is the increase in the cost of a project beyond the initially estimated or budgeted cost. It can occur due to various factors and can have a significant impact on the project's timeline and budget.

Some of the causes of cost escalation in an ongoing project are:

1. **Changes in scope:** Changes in project scope can result in increased costs, as additional resources, materials, or equipment may be required to complete the revised scope.
2. **Delays:** Delays in project timelines can result in increased costs due to the additional time and resources required to complete the project.
3. **Inflation:** Inflation can lead to an increase in the cost of materials, labor, and equipment, which can result in cost escalation.
4. **Market conditions:** Changes in market conditions, such as changes in supply and demand or fluctuations in currency exchange rates, can also impact project costs.

The impact of cost escalation on an ongoing project can be significant. It can result in:

1. *Budget overruns:* Cost escalation can result in the project exceeding the budget, which can impact the organization's finances and potentially result in the project being terminated or scaled back.
2. *Schedule delays:* Cost escalation can result in schedule delays, as additional time may be required to secure the necessary funding or resources to complete the project.
3. *Quality issues:* Cost escalation can lead to quality issues, as cost-cutting measures may be implemented to compensate for the increased costs.
4. *Reputational damage:* Cost escalation can result in reputational damage, as stakeholders may perceive the organization as poorly managed or incapable of delivering projects within budget and on time.

To mitigate the impact of cost escalation on an ongoing project, it is important to implement effective cost management strategies, such as monitoring project costs regularly, identifying potential cost risks and taking measures to mitigate them, and communicating effectively with stakeholders to ensure that they are aware of any changes in the project's timeline or budget. By managing costs effectively, organizations can ensure

that they deliver projects within the estimated budget and timeline, while also maintaining quality standards and stakeholder satisfaction.

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