

# Basics on Public Goods

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## Public Economics

- Free goods provide a special challenge for economic analysis.
- Most goods in our economy are allocated in markets...
- When goods are available free of charge, the market forces that normally allocate resources in our economy are absent.
- When a good has no price, private markets cannot ensure that the good is produced and consumed in the proper amounts.
- In such cases, government policy can potentially remedy the market failure that results, and raise economic well-being.

# THE DIFFERENT KINDS OF GOODS

- When thinking about the economic definition of goods, it is useful to group them according to two characteristics:
  - *Is the good excludable?*
  - *Is the good rival?*

# THE DIFFERENT KINDS OF GOODS

- Excludability
  - *Excludability* refers to the property of a good whereby a person can be prevented from using it.
- Rivalry
  - *Rivalry* refers to the property of a good whereby one person's use diminishes other people's use.

# THE DIFFERENT KINDS OF GOODS

- Four Types of Goods
  - Private Goods
  - Public Goods
  - Common Resources
  - Natural Monopolies

# THE DIFFERENT KINDS OF GOODS

- Private Goods
  - Are both excludable and rival.
- Public Goods
  - Are neither excludable nor rival.
- Common Resources
  - Are rival but not excludable.

## Figure 1 Four Types of Goods

		Rival?	
		Yes	No
Excludable?	Yes	<b>Private Goods</b> <ul style="list-style-type: none"><li>• Ice-cream cones</li><li>• Clothing</li><li>• Congested toll roads</li></ul>	<b>Natural Monopolies</b> <ul style="list-style-type: none"><li>• Fire protection</li><li>• Cable TV</li><li>• Uncongested toll roads</li></ul>
	No	<b>Common Resources</b> <ul style="list-style-type: none"><li>• Fish in the ocean</li><li>• The environment</li><li>• Congested nontoll roads</li></ul>	<b>Public Goods</b> <ul style="list-style-type: none"><li>• Lighthouses</li><li>• National defence</li><li>• Uncongested non-toll roads</li></ul>

# PUBLIC GOODS

- A *free-rider* is a person who receives the benefit of a good but avoids paying for it.
- Since people cannot be excluded from enjoying the benefits of a public good, individuals may withhold paying for the good hoping that others will pay for it.
- The free-rider problem prevents **private markets** from supplying public goods.



## Examples...

- National Defense
- Basic Research
- Fighting Poverty

A public good is **not** a good provided by the government

- Privately provided public goods
- Publicly provided private goods (health and education system)