

# Ch. 11 Public goods and common resources

- Two criteria for dividing the types of goods
  - Excludability: Property of a good whereby a person can be prevented from using it
  - Excludable: fish tacos, wireless Internet access
  - Not excludable: radio signals, national defense
- Rivalry in consumption
  - Property of a good whereby one person's use diminishes other people's use
  - Rival: fish tacos
  - Not rival: An MP3 file of Lady Gaga's latest single
- Different kinds of goods
- Private goods
  - Excludable & Rival in consumption (food)
- Public goods
  - Not excludable & Not rival in consumption (national defense)
- Common resources
  - Rival in consumption & Not excludable (fish in the ocean)
- Club goods
  - Excludable & Not rival in consumption (cable TV)
- Public goods and common resources
  - Externalities arise because something of value has no price attached to it
  - Private decisions about consumption and production can lead to an inefficient outcome
  - Public policy can potentially raise economic well-being
- Free rider
  - Person who receives the benefit of a good but avoids paying for it
- The free-rider problem
  - Public goods are not excludable, so people have an incentive to be free riders
  - Prevents the private market from supplying the goods
  - Market failure
- Government can remedy the free-rider problem
  - If total benefits of a public good exceeds its costs
  - Provide the public good
- Cost-benefit analysis
  - Compare the costs and benefits to society of providing a public good

- Common resources are not excludable
  - Cannot prevent free riders from using
  - Little incentive for firms to provide
  - Role for government: seeing that they are provided
- Common resources: rival in consumption
  - Each person's use reduces others' ability to use
  - Role for government: ensuring they are not overused
- The tragedy of the commons
  - Parable that shows why common resources are used more than desirable
  - Social and private incentives differ
    - The private incentives (using the land for free) outweigh the social incentives (using it carefully)
  - Arises because of a negative externality
    - Allowing one's flock to graze on the common land reduces its quality for other families
  - People neglect this external cost, resulting in overuse of the land
- Policy Options to Prevent Overconsumption of Common Resources
- Regulate use of the resource
- Impose a corrective tax to internalize the externality
- Auction off permits allowing use of the resource
- If the resource is land, convert to a private good