

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