

Public Goods



Why we are Interested

- Many arguments for public provision of goods argue that the market cannot provide public goods efficiently.

Why we are Interested

- Many things are called public goods:
 - Health
 - Education
 - Roads
 - Research and development
 - National and domestic security

Tests for a Public Good

- Public Goods must meet two tests
 - Non-excludability"
 - Non-rivalrous Consumption

Non-excludability

- Non payers cannot be excluded from enjoying the good.
 - Public defense
 - Fireworks

Non-excludability

- Non payers cannot be excluded from enjoying the good.
 - Public defense
 - Fireworks
- There can be free riders

A Test

- Health
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Non Rivalrous

- My watching does not exclude you from watching. Example – a very large field.

Non Rivalrous

- My watching does not exclude you from watching. Example – a very large field.
- While you could be excluded, there is no opportunity cost to your consumption as well.

Non Rivalrous

- My watching does not exclude you from watching. Example – a very large field. **Compare this to a widget**
- While you could be excluded, there is no opportunity cost to your consumption as well.

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Market Provision of Public Goods

- I am going to provide a fireworks display for Independence Day.

Market Provision of Public Goods

- I am going to provide a fireworks display for Independence Day.
 - People have no incentive to pay.
 - They also have no incentive to reveal how much they enjoy fireworks.

Market Provision of Public Goods

- I am going to provide a fireworks display for Independence Day.
 - People have no incentive to pay. **Ergo there is a potential problem with markets providing public goods.**
 - They also have no incentive to reveal how much they enjoy fireworks.

Not So Fast

- In many cases the market figures out ways to provide solution to free rider problems.

Not So Fast

- In many cases the market figures out ways to provide solution to free rider problems.
 - Scrambling cable TV signals
 - Password protection for web sites.
 - Road tolls
 - Condo associations

The Problems with Government Intervention

- There is a clear case for government intervention.
- But some problems get reversed

The Problems with Government Intervention

Overstating the benefit to a citizen
government intervention.

- But some problems get reversed

The Problems with Government Intervention

Overstating the

ben
gove

**Government
Bureaucracies**

- But some problems get reversed

End

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