

MORE CASES FOR GOVERNMENT INTERVENTION
PUBLIC GOODS AND COMMON RESOURCES – CH. 11

Assumptions for an Efficient Market Outcome



1) Well Defined Private Property Rights
(Chapter 11) - TODAY



2) Competitive markets



3) No Externalities (Chapter 10)



4) Information-available and accurate
(Ch. 10)

I. How We Classify Goods, p. 157

– four characteristics to consider

Rivalry in Consumption: the property of a good whereby one person consumes only at the expense of someone else being able to consume the good or one person's use diminishes use by someone else.



Nonrivalry in Consumption: The property of a good whereby one person's consumption does not limit someone else from consuming or diminish someone else's use



Excludability: the property of a good whereby a person can be prevented from using it.



Nonexcludability: The property of a good whereby a person cannot be prevented from using it



Excludable?		Rival in consumption?	
		YES	NO
	YES	PRIVATE GOODS House Car Sweater Congested toll road	CLUB GOODS Cable TV Satellite radio Uncongested toll road
	NO	COMMON RESOURCES Fish in the ocean Congested non-toll roads	PUBLIC GOODS Tornado siren National defense Uncongested nontoll road Broadcast radio waves

ABC, NBC, and CBS

- American Broadcasting Company
- National Broadcasting Company
- Columbia Broadcasting System



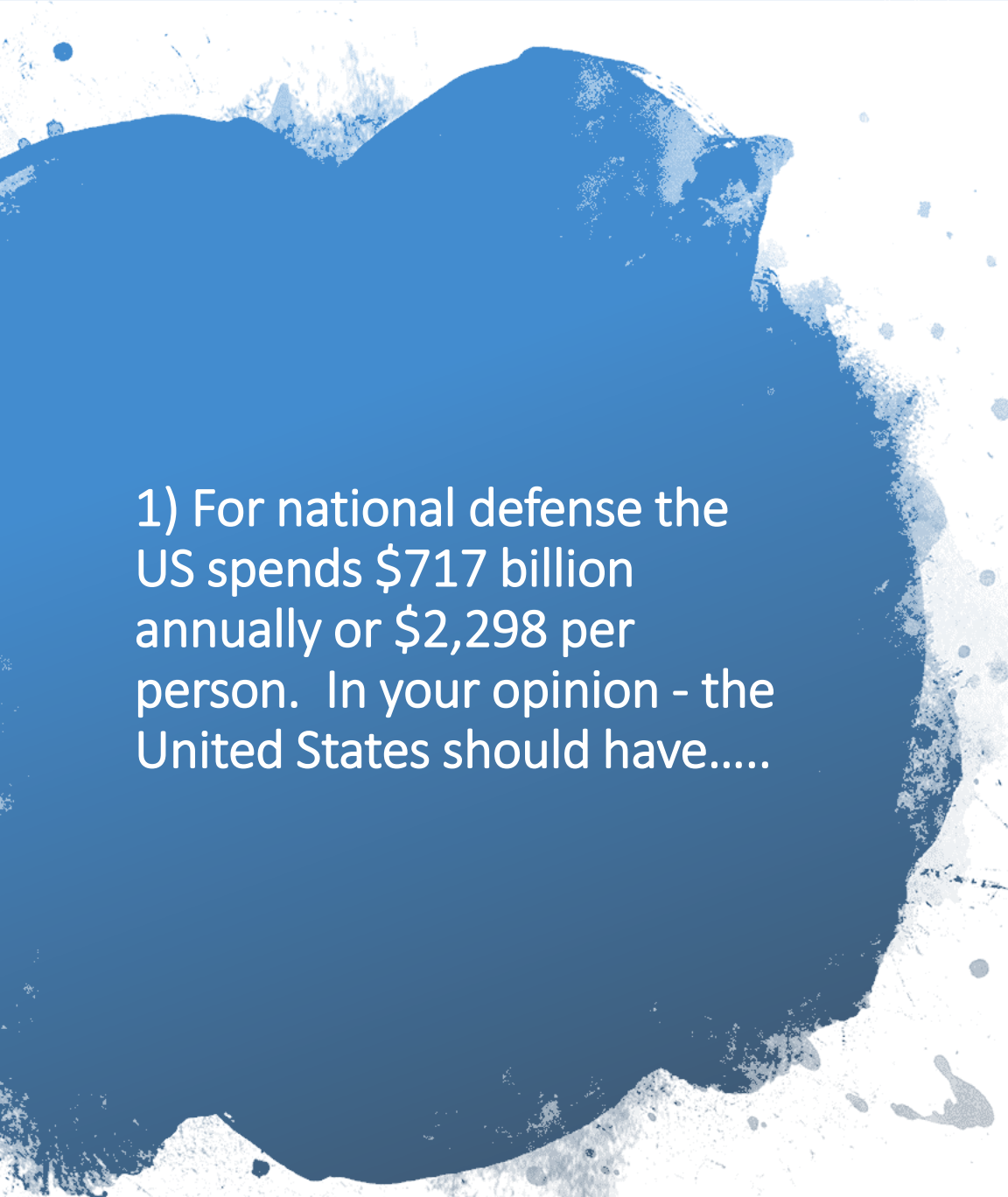


II. Public Goods and the Free-Rider Problem, p.158

Public Goods are
nonexcludable and
nonrival in consumption

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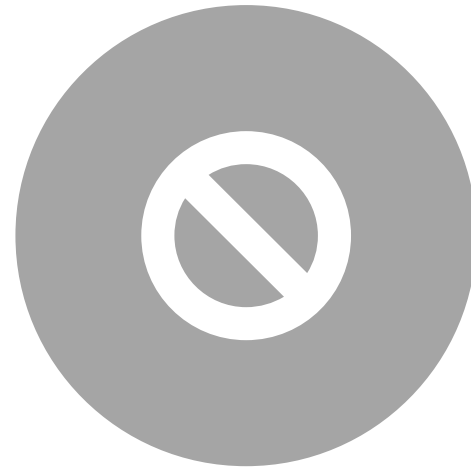
1) For national defense the US spends \$717 billion annually or \$2,298 per person. In your opinion - the United States should have.....

- A. no national defense
- B. some national defense, but less than we have now
- C. the same level of national defense that we do now
- D. some national defense, but more than we have now

2) Assume we don't pay for national defense with tax revenue. If a bucket is passed around and you are asked to chip in to help pay for national defense, would you put money in the bucket?



A. YES



B. NO

THE FREE-RIDER PROBLEM

- The free-rider problem
 - National defense
 - Public radio
- Market Failure: Private markets *under-provide* public goods
- Due to nonexcludability
- Government can provide public goods at efficient levels
- (allocative efficiency)
- (forces us to pay through taxation)



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1) Well Defined Private Property Rights
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Knowledge
obtained from
basic research is a
public good.



Poverty reduction- a public good

The benefits of reducing poverty are public goods.



The benefits of education can be public goods.



Cost-Benefit Analysis - A study that compares the costs and benefits to society of providing a public good, p. 159

- New traffic light reduces chance of fatality by .5 percentage points
- Estimated \$ value of human life \$10 million
- Marginal benefit of new light
- $.005 \times 10,000,000$ or \$50,000
- Suppose marginal cost of light is \$10,000
- $MB > MC$ install light

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3) Why might it not be a reasonable economic goal to try to enact policies that try to make people 100% safe or policies that eliminate ALL pollution?

A. 100% safety and zero pollution would lead to citizens who take safety for granted and won't pay taxes.

B. The marginal benefits of achieving these goals would far outweigh the marginal costs.

C. The marginal costs of achieving these goals would far outweigh the marginal benefits.



4) Elephant populations are more likely to thrive in a country where elephants roam free and hunting is illegal than in a country where elephants can be legally hunted by tribes with regional property rights to the elephant herds.

A. True

B. False



- John Stossel
Video Clip

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5) Elephant populations are more likely to thrive in a country where elephants roam free and hunting is illegal than in a country where elephants can be legally hunted by tribes with regional property rights to the elephant herds.

A. True

B. False

IV. Common Resources and the Tragedy of the Commons, p. 160

- The “common access” resource problem or the “tragedy of the commons” or the “common pool problem”
- **Problem of overuse or poor maintenance of a resource when property rights are not clearly established and the resource is nonexcludable.**
- **Easiest solution - assign private property rights**



Fish in the ocean

- rival and nonexcludable
- so common access resource

Policies:

- fishing ban
- fishing season
- fishing quotas
- tradable fishing permits



“We do believe in removing dirt from our rooms, but we also believe in throwing it in the street without regard to the well-being of society. We are clean as individuals, but not as members of the society of the nation of which the individual is but a tiny part.”

— M. K. Gandhi
[*Young India*: April 25, 1929]

INDIA OF MY DREAMS

I shall work for an India, in which the poorest shall feel that it is their country in whose making they have an effective voice; an India in which there shall be no high class and low class of people; an India in which all communities shall live in perfect harmony. There can be no room in such an India for the curse of untouchability or the curse of the intoxicating drinks and drugs. Women will enjoy the same rights as men. Since we shall be at peace with all the rest of the world, neither exploiting, nor being exploited, we should have the smallest army imaginable. This is the India of my dreams.

M. K. GANDHI , Young India , 10-9-1931

SEVEN SOCIAL SINS

Politics without Principles
Wealth without Work
Pleasure without Conscience
Knowledge without Character
Commerce without Morality
Science without Humanity
Worship without Sacrifice

Young India, 22-10-1925

