

Chapter 11: Public Goods and Common Resources

- What are public goods? What are common resources? Give examples of each.
- Why do markets generally fail to provide the efficient amounts of these goods?
- How might the government improve market outcomes in the case of public goods or common resources?

There are some cases where the markets fail to allocate resources efficiently.

Types of Goods:

When classifying types of goods in the economy, two characteristics should be examined.

DEF: EXCLUDABILITY

DEF: RIVALRY IN CONSUMPTION

- 4 categories of goods based on this classification system

	Rival in Consumption	Non-Rival in Consumption
Excludable	Private Goods Sandwich Clothes Congested Toll Road	Club Goods Distribution of Water Cable TV Uncongested toll road
Non-Excludable	Common Resources The environment Grazing Land Fish in the ocean Congested Non-Toll Road	Public Goods NPR Tornado Siren Street Art View of Flatirons Fireworks Highway Snow Removal Uncongested Non-Toll Road

- A road is which of the four kinds of goods? *Hint:* The answer depends on whether the road is congested or not, and whether it's a toll road or not. Consider the different cases.
- Rival in consumption? Excludable?

The different kinds of goods

PUBLIC GOODS

Free Rider:

Cost-Benefit Analysis:

COMMON RESOURCES

Tragedy of the Commons

The tragedy is due to an externality.

Government tries to limit the use of common resources: direct regulations, taxes, give permits

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 by dividing and selling parcels to individuals

Some important Common Resources: Clean air and water, Congested roads, Fish, whales, and other wildlife

CASE STUDY:

"You've Got Spam!"

- Some firms use spam e-mails to advertise their products.
- Spam is *not excludable*: Firms cannot be prevented from spamming.
- Spam is *rival*: As more companies use spam, it becomes less effective.
- Thus, spam is a common resource.
- Like most common resources, spam is overused – which is why we get so much of it!



"Spam" email is named after everyone's favorite delicacy.

Suggested problems: Problems and Applications- 1, 2, 3