

1.3.3 Public goods

- a) *Distinction between public and private goods using the concepts of non-rivalry and non-excludability*
 - b) *Why public goods may not be provided by the private sector: the free rider problem*
- Public goods:
 1. Non-rivalrous: consumption from one person doesn't limit consumption by others i.e. the marginal cost of supply is zero. If a good is supplied by one person it is available to all
 2. Non-excludable: everybody can use them
 3. Non-rejectable: the collective supply means it cannot be rejected by people
 - Private goods: They rival and excludable so consumption from one means other cannot consume it
 - Private goods cause market failure because they fail to supply or don't supply enough to reach the optimum quantity of public goods because they would be unable to supply them for profit
 - It is up to the government to decide the socially optimum output of public goods by estimating the net social benefits
 - Non-pure (quasi) public goods: They exhibit the characteristics of a public good - but not fully such as roads
 - Semi-non-rivalrous: more consumers reduce the space for others
 - Semi-non-excludable: it is possible but difficult to exclude non-paying customers
 - Public goods cause market failure due to the problem of missing markets
 - The nature of public goods is that it is hard to protect property rights
 - Healthcare is not a public good because it is rivalrous and excludable
 - Examples of public goods:
 1. Street lighting
 2. Nuclear defence systems
 3. National parks
 - The free rider problem: once a product is provided it is impossible to prevent people from using it and therefore, impossible to charge for it which is caused by the non-excludability of public goods so the price mechanism can't work
 - The free rider problem is a problem because in such circumstances the market will fail: an insufficient number of people willing to pay for the product so it will not be profitable for a business to provide it so it will be under provided
 - The tragedy of the commons: The idea that people acting in their own interests will overuse a common resource without considering that this will lead to the depletion or degradation of that resource