

Key Terms:

Public Good:

A good that is non-excludable and non-rivalrous in consumption – consumers cannot be excluded from consuming the good, and consumption by one person does not affect the amount of the good available for others to consume

Private Good:

A good that, once consumed by one person, cannot be consumed by somebody else; such a good has excludability and is rivalrous

Free-rider problem:

When an individual cannot be excluded from consuming a good, and thus has no incentive to pay for its provision

Market failure:

A situation in which the free market mechanism does not lead to an optimal allocation of resources, e.g. where there is a divergence between marginal social benefit and marginal social cost

Quasi-public good:

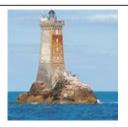
Quasi-public goods have characteristics of both private and public goods, including partial excludability, partial rivalry, partial diminishability and partial rejectability. Examples include roads, tunnels and bridges

Notes:

- An example of COMPLETE market failure
- Known as a missing market
- Has to be provided by the government due to the free rider problem

Examples:

- Lighthouse
- National defence
- Street lighting
- Police service
- Flood defence



Examples of market provision of public goods include:

- Local communities providing private policing
- Local communities raising money to pay for a local school, new garden or new statue

For each of the following goods, think about whether they have elements of non-rivalry, non-excludability, both or neither

- a. A national park
- b. A playground
- c. A theatre performance
- d. An apple
- e. A TV programme

- f. A firework display
- g. Police protection
- h. A lecture
- i. A DVD recording of a film
- j. The national defence

Questions:

- 1. What is a public good?
- 2. Define a public good and explain the free-rider problem
- 3. With examples, explain the difference between a pure and a non-pure public good
- 4. What is meant by the term 'quasi-public good'?

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it is possible to prevent someone from enjoying its
benefits.

B it is supplied by the government rather than through the free market.

C one person's use has no effect on the quantity available for someone else.

D it is supplied at a zero price.

A good is excludable if

Which one of the following is the reason why public goods are supplied by the government?

- A Sellers of the good or service are unable to prevent consumers from enjoying its benefits without payment.
- B Producers demand a higher price than some members of the public are prepared to pay.
- C Only governments have the technical knowledge required to produce public goods and services.
- D They can only be produced by a monopoly firm to prevent competition from rival suppliers.
- Which one of the following is associated with a missing market?
- A A monopoly restricting output
- B The production of a negative externality
- C A firm deciding to produce a private good
- D A government subsidising agricultural production

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