

# 1.3.3 Public Goods

EXAM PAPERS PRACTICE

## 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       | f. A firework display        |
| b. A playground          | g. Police protection         |
| c. A theatre performance | h. A lecture                 |
| d. An apple              | i. A DVD recording of a film |
| e. A TV programme        | 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'?

A good is excludable if

- |  |                          |
|--|--------------------------|
| A it is possible to prevent someone from enjoying its benefits.              | <input type="checkbox"/> |
| B it is supplied by the government rather than through the free market.      | <input type="checkbox"/> |
| C one person's use has no effect on the quantity available for someone else. | <input type="checkbox"/> |
| D it is supplied at a zero price.  | <input type="checkbox"/> |

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. | <input type="checkbox"/> |
| B Producers demand a higher price than some members of the public are prepared to pay.                       | <input type="checkbox"/> |
| C Only governments have the technical knowledge required to produce public goods and services.               | <input type="checkbox"/> |
| D They can only be produced by a monopoly firm to prevent competition from rival suppliers.                  | <input type="checkbox"/> |

Which one of the following is associated with a missing market?

- |  |                          |
|--|--------------------------|
| A A monopoly restricting output                    | <input type="checkbox"/> |
| B The production of a negative externality         | <input type="checkbox"/> |
| C A firm deciding to produce a private good        | <input type="checkbox"/> |
| D A government subsidising agricultural production | <input type="checkbox"/> |