

Market Failures

PUBLIC GOODS

2.9

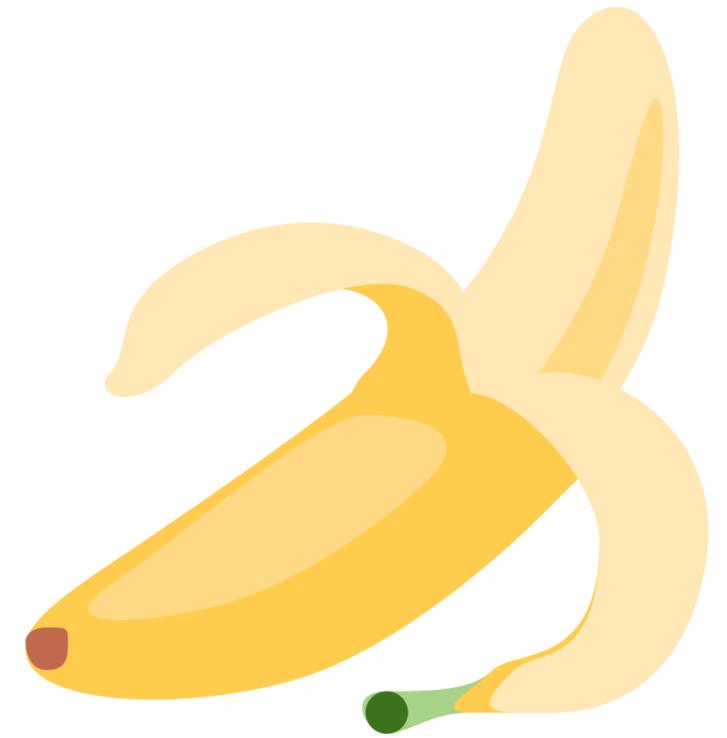


Terms to Know

Private Goods

Goods that are rivalrous and excludable.

Example: A Banana. When a banana is consumed, no one else can consume it and people can be prevented from eating it due to price.



Public Goods

Goods that are non-excludable and non-rivalrous.

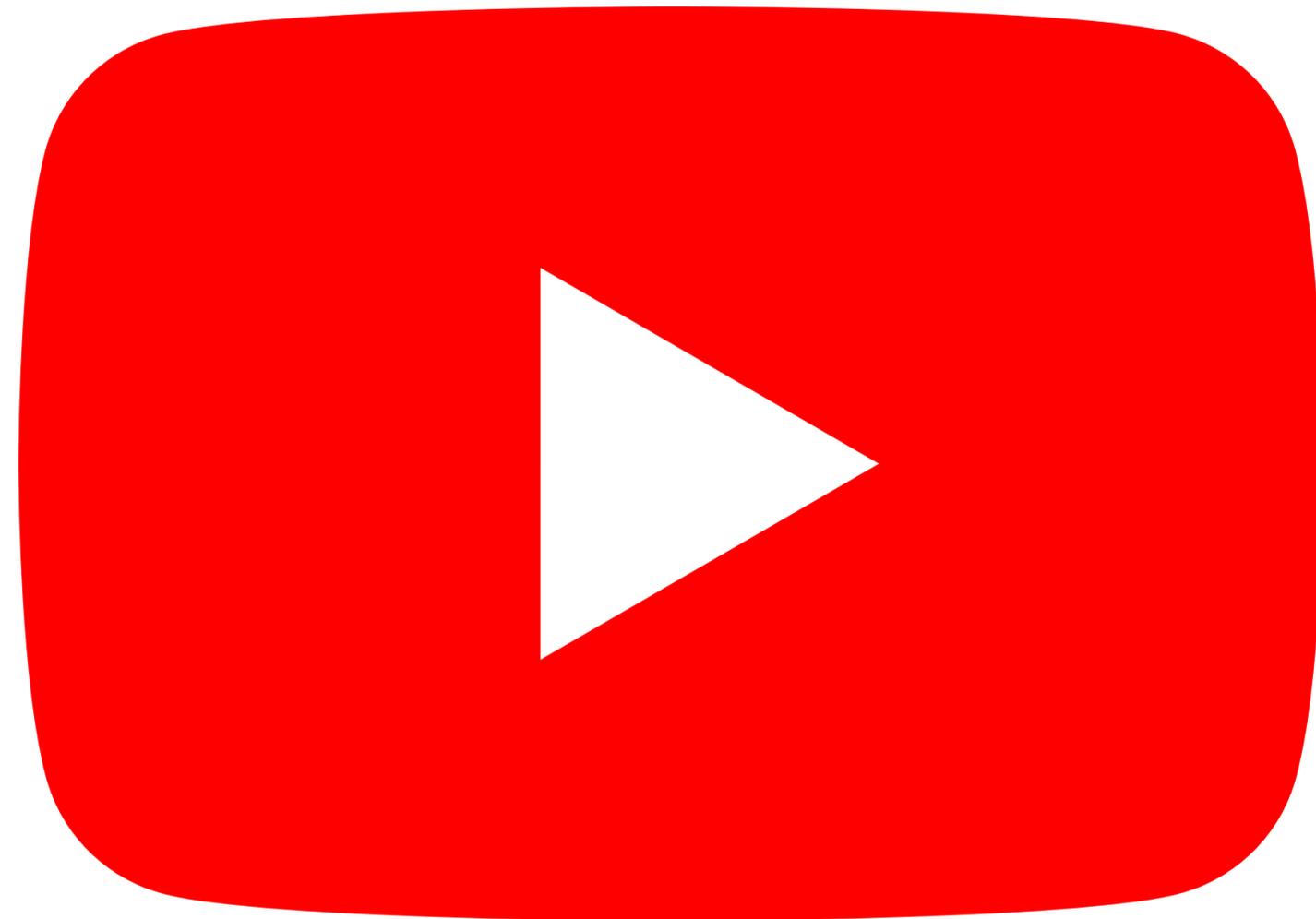
Example: A highway. Everyone is able to use it freely and if you use it, you aren't preventing others from using it.



The Problem:

How do public goods create market failures?





ACDC ECON - PUBLIC GOODS AND FREE RIDERS

Private vs Public Goods

Private Goods

Definition

Goods and services that are simultaneously rivalrous and excludable.

Examples: Plane Tickets, Fast Food Meal, Shoes



Private vs Public Goods

Public **Definition**

Goods that are both non-rivalrous and non-excludable

Examples: Street lights, National Security, Firefighters, , Air

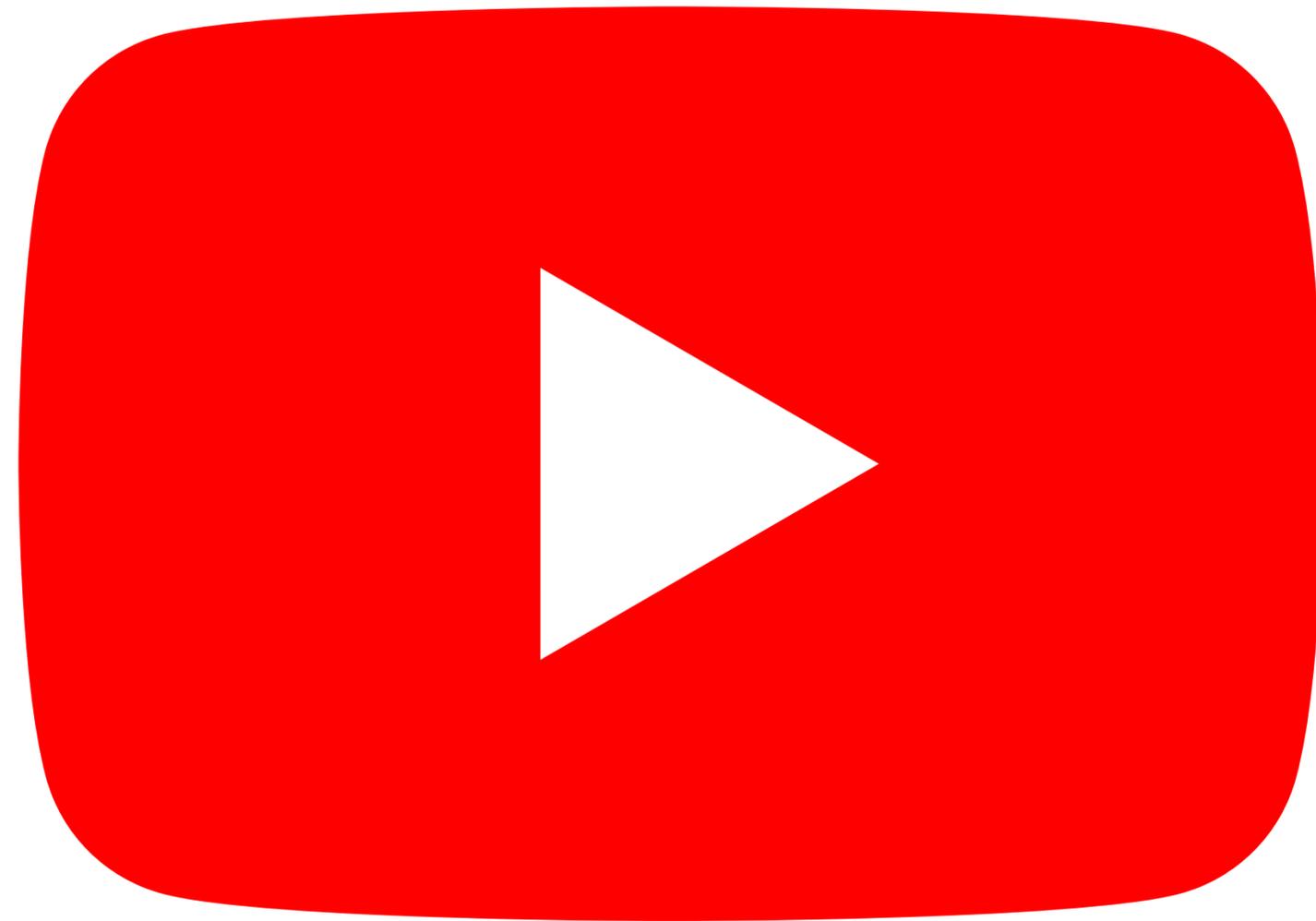


The Free Rider Problem

The idea is that no one is willing to pay for non-excludable goods and services, and those individuals believe someone else will pay for these goods.

Even if the government pays for these goods using revenue from taxes, free riders still arise as not all citizens will pay their share of taxes.

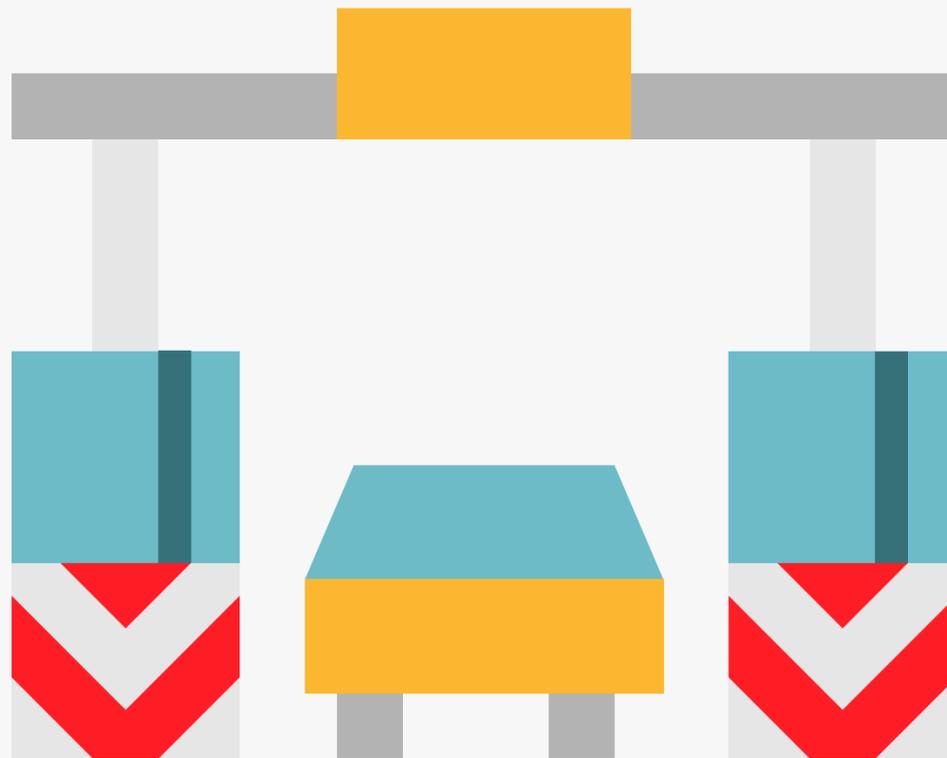




MARGINAL REVOLUTION UNIVERSITY - WHAT IS THE FREE RIDER PROBLEM?

Quasi Public Goods

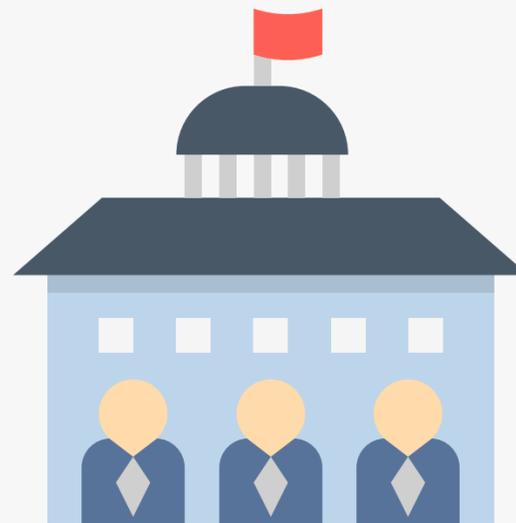
Goods that are excludable but non-rivalrous. An example is a movie theatre or toll highway



Government Response to Public Goods

Government Provision

In most cases, the government will choose to provide the public good by using tax revenue. This helps to solve the free-rider problem to a degree.



At times, however, the government may pay companies from the private sector if more efficient.

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