

Public and Common Goods

Econ 102: Introduction to Microeconomics

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1.1 Goals of today's class

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- Learn about other types of market failures.
- Learn about new types of goods: public goods and common goods.
- Learn about appropriate policy to allocate these goods.

2 Classifying Goods

2.1 Excludable vs Non-Excludable

Excludable vs Non-excludable Goods

- **Excludable:** A good is *excludable* if only the people who pay for the good are able to enjoy its benefits.
- **Non-excludable:** A good is *non-excludable* if many people can enjoy the benefits of a good whether they paid for it or not.
- Are the following goods excludable or non-excludable?
 - Military protection / defense.
 - Parks.
 - Schools.
 - Newspapers.
 - Highways.
 - Peanuts.

2.2 Rival vs. Non-rival

Rival vs. Non-rival Goods

- **Rival:** A good is a *rival good* if one person's use of the good diminishes or eliminates other people's enjoyment of the good.
- **Non-rival:** A good is *non-rival* if one person's use does not impact another person's enjoyment of the good.
- Are the following goods rival or non-rival?
 - Military protection / defense.
 - Highways.
 - Schools.
 - Hunting or fishing for sport / food.
 - Television programs.
 - Internet usage.

2.3 Public and Common Goods

Public vs. Private Goods

- **Private good:** A good that is excludable and rival.
 - These are most of the goods we talk about in this class.
 - These are goods that you can only consume if you buy them, and when you consume them, they are gone.
- **Public good:** A good that is non-excludable and non-rival.
 - Can be consumed / used simultaneously by everyone.
 - What are some examples of public goods?
- Desire to have public goods is a *market failures*: without any government intervention, there is no profit incentive to produce these goods.

Common Goods

- **Common good:** a good that is non-excludable, but rival.
- "Tragedy of the Commons"
 - Common goods get over-used, and can diminish or disappear absent of any regulation.
 - Non-excludable: allows anyone to use the good.
 - Rival: people's use of the good diminishes its usefulness.
- What are some examples of common goods?

3 Common Goods

3.1 Tragedy of the Commons

Tragedy of the Commons

- This phrase originates from 16th Century England.
 - Rough grasslands that surrounded villages and castles were common property used for grazing.
 - Since everyone could use the grassland, no one had an incentive to make sure the land was not over-grazed.
 - Wool became a profitable export for England, and the grassland surrounding villages throughout England became over-grazed and eventually useless.
 - Eventually, the land was privatized and people made optimal grazing decisions.

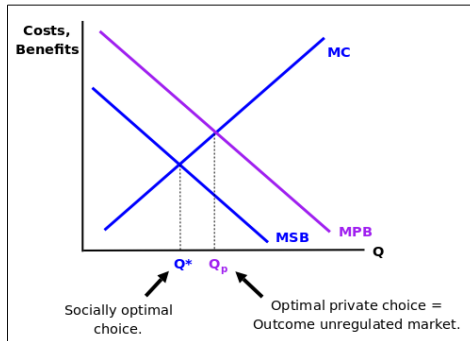
Modern Examples

- Northern Wisconsin Logging.
 - In 1800s, Northern Wisconsin was covered with White Pine Forest.
 - In 1847, Knapp Stout and Company, a logging company, purchased thousands of acres of land in Northern Wisconsin.
 - Began logging operations in 1848.
 - By 1870, Knapp Stout and Company was said to be the largest logging company in the world, with a seemingly endless supply of lumber.
 - By 1901, White Pine in Northern Wisconsin was completely gone. Now, agriculture is the region's primary industry.
- Atlantic Cod
 - Many commercial fishing companies.
 - Over-fishing leads to diminished population of Cod.

3.2 Efficient Use

Efficient Use of Commons Goods

- Problem, the private benefit of using a commons good is smaller than the social benefit.
- Social benefit is smaller, because your use diminishes others use.



3.3 Government Regulation

Common Goods Regulation

- Impose quotas.
- Impose use-tax. What curve would that shift?

