



# Public Goods and Common Resources

## Chapter 11

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**“The best things in life are free. . .”**

**Free goods provide a special challenge for  
economic analysis**

**Most goods in our economy are allocated  
in markets...**

**...for these goods, prices are the  
signals that guide the decisions of  
buyers and sellers.**

**“The best things in life are free. . .”**

**When goods are available free of charge, the market forces that normally allocate resources in our economy are absent.**

**“The best things in life are free. . .”**

**When a good does not have a price attached to it, private markets cannot ensure that the good is produced and consumed in the proper amounts.**

**“The best things in life are free. . . .”**

**In such cases, government policy can potentially remedy the market failure that results, and raise economic well-being.**

# The Different Kinds of Goods

When thinking about the various goods in the economy, it is useful to group them according to two characteristics:

*Is the good excludable?*

*Is the good rival?*

# **The Different Kinds of Goods**

## **Excludability**

**People can be prevented from enjoying the good.**

**Laws recognize and enforce private property rights.**

# The Different Kinds of Goods

## Rivalness

One person's use of the good diminishes another person's enjoyment of it.



# **Four Types of Goods**

**Private Goods**

**Public Goods**

**Common Resources**

**Natural Monopolies**

# Types of Goods

## Private Goods

Are both excludable and rival.

## Public Goods

Are neither excludable nor rival.

# Types of Goods

## **Common Resources**

**Are rival but not excludable.**

## **Natural Monopolies**

**Are excludable but not rival.**

# Types of Goods

**Rival?**

**Yes**

**No**

**Yes**

## **Private Goods**

- Ice-cream cones
- Clothing
- Congested toll roads

## **Natural Monopolies**

- Fire protection
- Cable TV
- Uncongested toll roads

**Excludable?**

**No**

## **Common Resources**

- Fish in the ocean
- The environment
- Congested nontoll roads

## **Public Goods**

- National defense
- Knowledge
- Uncongested nontoll roads

# The Free-Rider Problem

A **free-rider** is a person who receives the benefit of a good but avoids paying for it.

# **The Free-Rider Problem**

**Since people cannot be excluded from enjoying the benefits of a public good, individuals may withhold paying for the good hoping that others will pay for it.**

**The free-rider problem prevents private markets from supplying public goods.**

# **Solving the Free-Rider Problem**

**The government can decide to provide the public good if the total benefits exceed the costs.**

**The government can make everyone better off by providing the public good and paying for it with tax revenue.**

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