

CHAPTER 11

**Public Goods and  
Common Resources**

PRINCIPLES OF  
**Economics**  
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Premium PowerPoint Slides  
by Ron Cronovich

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**In this chapter,  
look for the answers to these questions:**

- § What are public goods?  
What are common resources?  
Give examples of each.
- § Why do markets generally fail to provide the  
efficient amounts of these goods?
- § How might the government improve market  
outcomes in the case of public goods or common  
resources?

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**Introduction**

- § We consume many goods without paying:  
parks, national defense, clean air & water.
- § When goods have no prices,
- § The private market may fail to provide the  
socially efficient quantity of such goods.
- § One of the Ten Principles from Chapter 1:  
***Governments can sometimes  
improve market outcomes.***

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### Important Characteristics of Goods

§ A good is **excludable** if

§ *Excludable:*

§ *Not excludable:*

§ A good is **rival in consumption** if

§ *Rival:*

§ *Not rival:*

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### The Different Kinds of Goods

**Private goods:**  
Example:

**Public goods:**  
Example:

**Common resources:**  
Example:

**Natural monopolies:**  
Example:

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**ACTIVE LEARNING 1**

### Categorizing roads

§ A road is which of the four kinds of goods?

§ *Hint.* The answer depends on whether the road is congested or not, and whether it's a toll road or not. Consider the different cases.

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### The Different Kinds of Goods

§ This chapter focuses on public goods and common resources.

§ For both,

§ So, private decisions about consumption and production

§ Public policy can potentially raise economic well-being.

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### Public Goods

§ Public goods are difficult for private markets to provide because of the *free-rider problem*.

§ **Free rider:**

§ If good is not excludable, people have incentive to be free riders, because firms cannot prevent non-payers from consuming the good.

§ Result: The good is not produced,

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### Public Goods

§ If the benefit of a public good exceeds the cost of providing it, govt should provide the good and pay for it with a tax on people who benefit.

§ Problem: Measuring the benefit is usually difficult.

§ **Cost-benefit analysis:**

§ Cost-benefit analyses are imprecise, so the efficient provision of public goods is more difficult than that of private goods.

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**Some Important Public Goods**

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**Common Resources**

- § Like public goods,
  - § Cannot prevent free riders from using
  - § Little incentive for firms to provide
  - § Role for govt: seeing that they are provided
- § Additional problem with common resources:
  - § Role for govt: ensuring they are not overused

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**The Tragedy of the Commons**

- § A parable that illustrates why common resources get used more than is socially desirable.
- § Setting: a medieval town where sheep graze on common land.
- § As the population grows, the # of sheep grows.
- § The amount of land is fixed, the grass begins to disappear from overgrazing.
- § The private incentives (using the land for free) outweigh the social incentives (using it carefully).
- § Result: People can no longer raise sheep.

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### The Tragedy of the Commons

§ The tragedy is due to an externality:  
Allowing one's flock to graze on the common land  
reduces its quality for other families.

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### ACTIVE LEARNING 2

### Policy options for common resources

§ What could the townspeople  
(or their government)  
have done to prevent the tragedy?

§ Try to think of two or three options.

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### Policy Options to Prevent Overconsumption of Common Resources

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## Some Important Common Resources

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### CASE STUDY:

#### “You’ve Got Spam!”

§ Some firms use spam emails to advertise their products.

§ Spam is

§ Spam is *rival*:

§ Thus,

§ Like most common resources,

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## CONCLUSION

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§ These problems arise because

§ Nobody owns the air, so no one can charge polluters. Result: too much pollution.

§ Nobody can charge people who benefit from national defense. Result: too little defense.

§ The govt can potentially solve these problems with appropriate policies.

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