

2.7

Public Goods & Externalities



As a Young Economist, I will be able to...

- Identify examples of public goods.
- Analyze market failures.
- Evaluate how the government allocates some resources by managing externalities

Public Goods

Shared good or service for which it would be inefficient or impractical to...

- 1. Make consumers pay individually**
- 2. Exclude those who did not pay**

What are some examples in every day life?

Would you pay the salary of the military out of your own pocket?



But what makes a public good?

**We believe that certain services should be free to all
such as fire services or library**

**Any number of consumers can use it without benefits
being reduced to another**

Public Sector- The part of the economy that
involves the transactions of the
government

Private Sector- The part of the economy that
involves transactions of individuals &
businesses

Costs & Benefits

Government will step in to act in public interest when costs of policy outweigh drawbacks

Infrastructure- the basic facilities that are necessary for a society & economy to function

Transportation, sewer, electricity, roads, etc are all examples



Cost-Benefit Criteria

1. Benefit to each individual is less than the cost that each would have to pay if it were provided privately

2. Total benefits to society are greater than the total cost



Costs & Benefits

Individuals see taxes paid for public goods as a small payment rather than a large individual one

Government provides efficiency to maximize output of goods & services

Some items are impossible to gauge use, such as taxing people who drive on a road

Tax revenue is used to pay for public goods!



FREEEEEEEE- Rider

Free rider- Someone who would not be willing to pay for a certain good or service, but would get the benefit if a public good

How can public goods in another state be beneficial to you?

Do we provide public services as a way of respecting our neighbors?



This is why we need to tax as money probably wouldn't come voluntarily

Market Failure

Specific situations in which the free market, operating on its own, does not distribute resources efficiently

Public goods also protect consumers from high costs and ensure everyone gets the same access



Externalities

Economic side effect of a good or service that generates benefits or costs to someone other than the person deciding how much to produce or consume

Goods that benefit people, not just those who pay for goods, are positive externalities

Unintended costs are negative externalities

Government Goals

Costs or services of a good are not assigned properly, so externalities are a sign of market failure

The government can take action to create positive externalities for the good of the public

The government also aims to limit negative externalities creating laws & policy

Should the private sector monitor these or the government?



Poverty Problem

About 15-20% of Americans live in Poverty, those under the age of 18 is higher, & minority groups are more susceptible to it

Poverty Threshold- income level below that which is needed to support families

Welfare- General term for government aid for the poor & the redistribution of wealth.

