

Providing Public Goods

## Chapter 3, Section 3

## Introduction

### Why does a society provide public goods?

## Public Goods

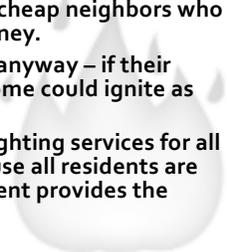
***public goods: a shared good or service for which it would be inefficient to***

- 1.
- 2.

## Inefficiencies in Making Consumers Pay Individually

### Fire Protection

- Almost everyone on your street wants fire protection, except a few cheap neighbors who say it's not worth the money.
- You want fire protection anyway – if their homes catch fire, your home could ignite as well.
- Local taxes pay for fire-fighting services for all property in an area because all residents are better off if the government provides the service.



## Inefficiencies in Those Who Did Not Pay

### Maintenance of Street Lights

- Again, almost everyone in your city wants traffic lights, except for a few cheap neighbors who say it's not worth the money.
- You want traffic lights anyway – you just bought a car and there are too many old people in your town who are always getting into accidents.
- Local taxes pay for street light maintenance for all citizens in an area because all residents are better off if the government provides the service.

## Public Goods

Any number of consumers can use public goods without reducing the benefits to any single consumer.

### ▪ Example:



## Public Goods

What two criteria must be present for a public good?

1. The benefit to each individual ...
2. The total benefits to society ...

## Public Goods

*free riders: people who are not willing to pay for a particular good or service, but would benefit from it if it were offered as a public good*

- The free-rider problem suggests that if the government stopped providing public goods ...

## Public Goods

### Free Rider Example: National Roads

- You would probably not voluntarily contribute to build roads in a state you did not live in.
- When the government builds and maintains a system of national roads, you share in the benefit.
- A national road system makes it easier for trucking companies to bring goods to your state.
- You receive the benefit whether you pay directly or not.

## Market Failure

***market failure: a situation in which the free market, operating on its own, does not distribute resources efficiently***

- Example:

## Externalities

***externality: an 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***

## Externalities

### Positive Externalities

### Positive Externality Example

You buy the worst house on the block.

You cut the grass, paint the house, and plant flowers.

The neighborhood property values go up.

### Externalities

***negative externalities: unintended costs caused by producing goods and services***

### Negative Externality Example

a paper mill dumps chemical waste into a river

city downstream from paper mill forced to install water-treatment plant

community, not polluter, pays the cost of cleaning up the river



### Externalities

The government may take action to create positive externalities

- Example:

The government aims to limit negative externalities

- Example: