

Theory of Public Goods and Public Policy



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Coverage

- Externalities
- Free rider problem
- Characteristics of different types of goods
- Why government provides public goods



Public Goods and Public Policy

- Public goods theory helps in determining the scope of governmental activity
- In what conditions or provision of which goods, the government may intervene, if it plans to do that.
- Public goods theory indicates why goods with the characteristics of publicness cannot be produced efficiently by the private sector



Some important concepts

- Externalities
 - Negative externality
 - Positive externality
- Free Rider's problem
- Jointness in consumption
- Exclusion



Matrix of Goods and Services

Rivalrous Consumption

Alternative Use

Joint Use

Excludability

Feasible

Private Goods

Club Goods

Infeasible

*Common-Pool
Resources*

Public Goods

Figure 1: *adopted from Ostrom and Ostrom, 1977.*



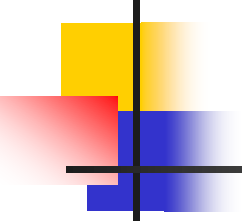
Types of Goods

- Private Goods
- Public Good
- Toll Goods
- Common pool resources
 - the tragedy of the commons

When government provides public goods



- Depends on nature of externalities and the free rider's problem that determine the scope of government action.
- There can be simultaneous provision of the same good by both private and public sector
- All these concepts combined together help us understand as to how the goods and services can be provided efficiently and by whom and what determines the government intervention and when.



Thank you