

Public goods

a) The distinction between public and private goods

- **Public good** is non-rival and non-excludable and it is under provided in the free market
e.g. road and street light
 - **Non-excludable** means no one can be excluded from the consumption.
 - **Non-rival** means the consumption by one person does not reduce the consumption to the next consumer.
- **Private good** is rival and excludable e.g. clothing and personal laptop.
 - **Excludable** means everyone can be excluded from the consumption.
 - **Rival** means the consumption by one person reduces the consumption to the next consumer.

b) Why public goods may not be provided by the private sector making reference to the free-rider problem.

- **Public good** is non-rival and non-excludable and it is under provided in the free market
e.g. road and street light
- **Reason why public good is under-provided in the free market**
 - Private sector does not want to provide public goods because they cannot make profit as public goods are non excludable.
 - Public goods are non excludable so it cannot be charged.
 - The free rider's problem arises in public goods market.
 - ↳ Free rider; someone who receives benefits but allows others to pay. (They do not pay tax but can use road and national defence)

Solution

- 1) Government directly provides public goods
- 2) Changing from pure public goods to non pure public goods.
 - ↳ non pure public goods; non rival but excludable such as tollway