Public Goods

Tietenberg and Lewis, Chapter 2
Public goods have two characteristics:

1. **Nonrival**: When consumption of a good by one person does not reduce the quantity that can be consumed by others.

2. **Nonexclusive good**: A good that, once produced, is accessible to all consumers, no one can be excluded from consuming such a good after it is produced.

**Examples**...
How much should be provided to maximize net social benefits?

- As long as the marginal benefit of an additional unit is at least as great as the marginal cost of that unit
- The MC of a PG is the opportunity cost
- The MB(Social) is the sum of all the benefits of all people who values the additional unit
- **Free-rider**
  - Someone who derives the value from a commodity without paying an efficient amount for its supply
  - Examples...?

- **Imperfect Market Structure**
  - Monopoly
  - Imperfect markets play a role in environmental problems
  - Let us discuss the problems of a cartel
  - Benefits....?
Private resolution through Negotiation

- Environmental problems arise when property rights are *ill* defined
- Let us assume that there is a conflict between a polluting steel company and a downstream resort
- The resorts offers a bribe in order to induce the socially optimal level
- Would the steel company be willing to reduce production level to the desire level?

Ronald Coase (1960) "As long as negotiation costs are *negligible* and affected consumers can negotiate freely with each other (when the number of affected parties is *small*), the court could allocate the entitlement to either party, and a efficient allocation would result"