

Unit 2

Market failure, externality, public good — Environment as a public good, Tragedy of Commons.

→ Market failure, Tragedy of Commons

→ Public goods / Private goods ^{goods} / Public bad

Public good and public bad.

In simple sense a good is that which is individually beneficial and people really want it. A public good is defined as that good which provides non-excludable and non-rival benefit to the people.

The non-excludability characteristics implies that no one can be excluded from the purpose of consumption of good. On the other hand a good is non-rival, if the consumption of a unit off the good by one person does not reduce the availability of the good for others to consume. The benefits provided by footpath, rural highway etc. are examples of public good.

Public bad:

Public bad is that which harms people and hence do not want it. If one's economic activities create disutility for others then public bad arise. For example a factory situated in a residential area emits smoke which affects adversely health is considered as public bad.

⇒ Distinction between Public Goods and Private Goods:

Depending on the use of resources, goods are classified in two broad categories — Public goods and private goods.

The distinction between these goods can be understood on the basis of product divisibility, externalities, zero marginal cost etc.

Public good	Private good
1. Non-excludable and non-rival	1. Excludable and rival
2. Free of direct charge.	2. Private goods are financed and supplied by the market on the payment of price.
3. Indivisible and hence cannot be separated for individual use or consumption.	3. Divisible and restricted for those who are willing to pay the price.
4. In case of public good, the sum of marginal social benefit is equal to marginal social cost	4. In case of private goods, marginal private benefit is equal to marginal private cost
5. Marginal cost is zero or ^{close} near to zero.	5. Marginal cost of private goods is always positive.

⇒ Types of Public good: There are two types of public goods — (i) Pure and (ii) Impure public goods.

In case of pure public goods both non-excludable and non-rival principles are applicable while in case of impure public goods either non-excludable or non-rival