

Microeconomics, Module 19, "Common property and public goods" (chapter 14)

*Micro module 19: Readings for eighth edition*

(The attached PDF file has better formatting.)

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{The Landsburg textbook is excellent. We say to read certain sections and to skip others. This does not mean that certain sections are better; it means that the homework assignments and exam problems are based on the sections that you must read for this course. Some of the skipped sections are fascinating, but they are not tested.}

Read section 14.1 on pages 459-467. Know the "important assumption" in the middle of page 460. Be sure you understand Exhibit 14.1 on page 461 (crowd size, value of a visit, and social marginal benefit) and the table on the bottom of page 462 (admission fee, crowd size, and social gain).

Read carefully the section "It Can Pay to Be Different" on pages 463-464 to understand how tastes affect this subject. The analysis at the beginning of the chapter may not apply if consumers have different tastes. Exhibit 14.2 on page 464 shows a graphic that helps you grasp the concepts.

Read section 14.2, "public goods," on pages 467-471. The final exam tests non-rivalrous goods and non-excludable goods; be sure you understand the difference.

Skip "Schemes for Eliciting Information" on pages 471-472. It is hard to assess the value of public goods for most people. Imagine trying to assess the value of the wars in Iraq and Afghanistan to U.S. citizens. Most people would say the wars have no value for them. But the same people might say that Islamic terrorism has enormous negative value. We don't purport to know if these wars have much effect (good or bad) on Islamic terrorism; we simply point out that it is rarely possible to estimate the value of public goods to people.

The tragedy of the commons is one of the most important political issues in the global economy, though it is hard to assess the potential global losses. All countries want to fish in the oceans, but some ocean fish are being depleted (blue tuna is a good example). Solving the problems is extremely difficult, since few countries want to lose money to help their competitors.

Review Exercise N1 on page 473; the final exam problems are similar.

Review Exercise N2 on the bottom of page 473. For simple (ideal) scenarios, you should be able to work out the optimal admissions fee.

Work through problems 1 and 2 on pages 473-474; these are good practice for the final exam questions. Be sure you can solve problem 1(c), the optional entrance fee.

Review problem 8 on pages 475-476. The final exam problems ask similar questions about various public goods.

Review problem 10 on page 476. Economists trace who actually gains and who loses from various government legislation. The most widely cited example is minimum wage laws, which harm poor people (who lose their jobs) but help higher paid union workers (who have less competition). Landsburg points out these effects in many chapters of his text.

Review problems 11 and 12 on page 476. These two problems repeat the principles in the text.