Microeconomics, Module 19, “Common Property and Public Goods” (Chapter 14)

Overview and Concepts

(The attached PDF file has better formatting.)

Incomplete property rights create economic inefficiency.

- *Common property* is property that has no owner.
- *Public goods*, once produced, are costlessly available for use by others.

Important Concepts:

Section 14.1: Understand three concepts about common property:

- Common property has no owner and can be used by anyone.
- Competitive behavior causes common property to be overused, reducing its economic rent.
- If all users are identical, the rent earned from the common property is reduced to zero.

This last result is known as the *dissipation of rents* or the *tragedy of the commons*.

Section 14.2: Understand three concepts about public goods.

- One person’s consumption of a public good increases the amount available to others.
- Public goods are non-excludeable, non-rivalrous, or both.
- Governments frequently provide public goods, because competitive markets fail to produce these goods in socially efficient quantities.

National defense is the standard example of a public good. An army that defends one person defends everyone. One can’t charge each person separately for use of the army, since if one person pays for the army’s upkeep, others hitch a “free ride” by not paying.

We use to think that many goods and services are public goods, such as police protection, courts, fire protection, mail service, interstate highways, environmental protection, and public welfare systems. But for many of these goods, when public services proved inefficient, private services in competitive markets were more efficient.

- When police protection proved incapable of keeping communities safe, some people set up gated communities with private police forces.
- When courts proved incapable of servicing business needs without high legal expenses and class action suits, many businesses began using private arbitration procedures.

We do not claim that private or public goods are necessarily better, but you must be careful before stating that a good cannot be provided by a private competitive market and must be provided by the government. The final exam uses the illustrations in the textbook.

People have incentives to overstate or understate their preferences for a public good. We must know people’s preferences to determine if a public good should be provided. In theory, society may design incentives like a *Clarke tax* to learn people’s preferences. Since Clarke taxes are not used in practice, we do *not* cover this topic in the microeconomics on-line course.