

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

*Micro module 19: Readings for tenth edition*

(The attached PDF file has better formatting.)

{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 skipped sections are fascinating, but are not tested.}

Read section 14.1. Know the "important assumption" below the box about dissipation of rents. Understand Exhibit 14.1 (crowd size, value of a visit, and social marginal benefit) and the table above exercise 14.2 (admission fee, crowd size, and social gain).

Read carefully the section "It Can Pay to Be Different" to understand how tastes affect common property. The analysis at the beginning of the chapter may not apply if consumers have different tastes. Exhibit 14.2 shows a graphic that helps you grasp the concepts.

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

Skip "Schemes for Eliciting Information" and "Reaching the Efficient Outcome." It is hard to assess the value of public goods for most people. Imagine trying to assess the value of the global war on terror to U.S. citizens. Most people would say the war has no value for them. But the same people might say that Islamic terrorism has enormous negative value. We don't purport to know how to reduce terrorism; we simply say 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.

Measuring the losses from common property is tricky. Some people attribute vast losses to global warming; others see fossil fuels as the source of western prosperity.

Review Exercise N1; the final exam problems are similar. See *Part C*; the final exam problems require elementary calculus.

Work through end of chapter problems 1 and 2; these are good practice for the final exam questions. Be sure you can solve problem 1(c), the optional entrance fee.

Work through end of chapter problem 3. This is a real life scenario in every city. If there are two or more paths (from the city to the airport, from point A to point B) and enough congestion, the benefits of the two routes for the average driver converge.

Review problem 5. Landsburg emphasizes this point.

Review problem 8. The final exam problems ask similar questions about various public goods.

Review problem 10. 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. These two problems repeat the principles in the text.