

LECTURE 22: TYPES OF GOODS II

- I. A production game
- II. The Tragedy of the Commons
 - a. A *commons* is a good that everyone has the right to use.
 - b. The *tragedy of the commons* arises when free access leads to overexploitation, dooming the resource.
 - c. Nobody has a vested interest in protecting what's there because such work will subsidize everyone else.
 - d. Everybody has a vested interest in taking as much as they can because the costs of doing so are burdened by everyone.
 - e. There are many examples: pollution (water, air, soil); public parks (litter and general decay); clear cutting of forests; elephants and other presumably protected wildlife.
 - f. At the same time, it's not so simple! Sometimes, the survival of a community depends on proper governorship of these common resources so people develop institutional arrangements to mitigate these problems. Elinor Ostrom's *Governing the Commons* discusses the clever ways people work around these problems in great detail, and earned her a Nobel Prize in 2009.
- III. Club Goods
 - a. These are goods where efficiency suggests everyone should use them (because the marginal cost of an additional user is at or near zero) but it's very practical to exclude people.
 - b. Because it's practical to exclude people and easy to serve people, a lot of firms use it in their business strategy.
 - i. Video games, swimming pools, digital music, and subscription services are examples.
 - ii. Club goods that are "congestible", like swimming pools, are best served when the number of users is carefully managed. If a lot of people want to buy a product, a congestible club good—like a gym membership—is more likely to increase prices.
 - c. Sometimes these goods benefit from a *network effect*—when the value of the good increases as the number of users increases.
 - i. Imagine only two people used email. Getting an email address wouldn't be that beneficial because you could only contact two

people. As more people get email, the benefits to having an email address grow as there's a greater network to contact.

- ii. Language is another example, which is why English is a common second language and other languages are dying out.
- iii. This effect encourages monopoly. Facebook is used because so many people are on it. If you try to create a competitor (Google+), you'll have a hard time breaking into the market.