

LECTURE 28: TYPES OF GOODS I

I. Definitions

- a. There are lots and lots of different types of goods. We'll be investigating a few of them based on two dimensions: excludability and rivalry.

	<i>Rivalrous</i>	<i>Non-rivalrous</i>
<i>Excludable</i>	Private goods	Club goods
<i>Non-excludable</i>	Commons	Public goods

- b. Excludability describes how easy it is to prevent people from using the good without permission. While excludability is technically a spectrum—some goods are harder than others to exclude users—we simplify this by having two categories: excludable and non-excludable.
- i. Note excludability does not hinge on what the law says. It hinges on the practicality of excludability. By law, everyone has access to elementary education but logistically it's very easy to exclude people from this service.
- c. Rivalry describes how much worse the good becomes when you add another user. Are consumers rivals or not? Satellites are non-rivalrous. When you use GPS to get directions, that doesn't interfere with my ability to use GPS.
- i. Rivalry is also a spectrum. One more car on a nearly empty road doesn't hurt anyone else but one more car on a crowded road does. But, again for simplicity, we think in terms of categories. Under ordinary circumstances, is the marginal cost of adding an additional user at or near zero? If so, it's non-rivalrous.

II. Private Goods

- a. These are typical goods. Food, clothing, furniture, books, etc. Much of this course focuses on private goods so there's no need to talk about them much here.

III. Public Goods

- a. People often invoke the phrase "public good" when making an argument for the government support of various programs—health care, museums, and so forth.

- b. There is, however, a very precise definition of public goods in economics. Public goods are *non-rivalrous* **and** *non-excludable*.
- c. National defense, attractive buildings, the light from a lighthouse, police patrols, and so forth are examples. In each case, the costs of exclusion are prohibitive and the marginal cost of adding an additional user is zero.
 - i. Note that some things people call public goods—such as education and health care—don't fulfill either criterion.
- d. Because of their nature, public goods often suffer from *free riders*—people who don't contribute to make the good but still consume it. If the Department of Defense just *asked* the American people to send them a check, most won't do it. They will free ride off of other people's contributions. Thus public goods often have to be provided by the government.