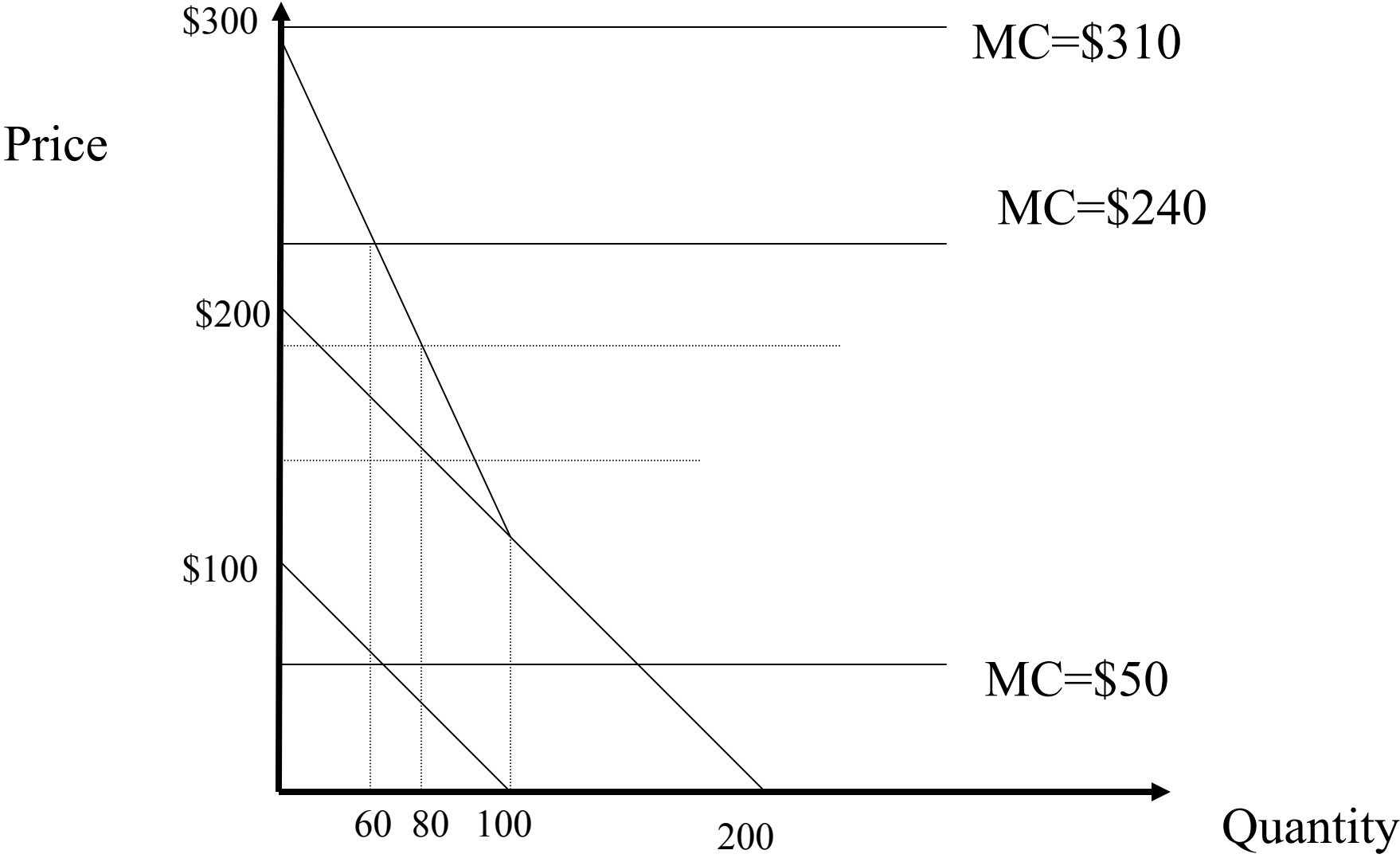


Quantity of the public good



Efficient Provision of Public Good

How much of public goods (roads, national defence..) should be provided?

- The marginal cost can be worked out as with any good
- With a private good, marginal benefit is the price a consumer is willing to make to consume the good
- With a public good, increasing its provision benefits all consumers.
- For public good, marginal benefit is the *sum* of the amount that each individual is willing to make!

How to get this information?

Public Provision of Public Goods

The difficulties are

- (a) getting people to reveal their individual valuations for the public good in order to know how much to provide
- (b) related to this, getting the individuals to pay their valuation for the public good

If one asks people, the incentive to reveal the true willingness to pay are distorted...

Private Provision of Public Goods

Private provision is possible for excludable public goods

- But it is desirable?
- Since consumption is not rival, exclusion is not efficient!
- The private sector does not supply public goods in efficient quantities (*market failure*)

Public Good: Summary

- Free rider problem: everybody wants the public good but nobody wants to pay for it
- Private markets under-supply public goods
- Difficulty with supplying public goods
 - What is the optimal quantity?
 - Who should finance the expenditures?