Grade 8

Subject: Economics

Chapter: Role of Government In an Economy

Topic: Government as a producer

1) What are the main reasons for government intervention in markets?

The main reasons for policy intervention by the government are:

- To correct for market failures
- To achieve a more equitable distribution of income and wealth
- To improve the performance of the economy.

2) What is a public good?

Public goods are non-excludable and non-rival. Individuals cannot be effectively excluded from using them, and use by one individual does not reduce the good's availability to others. Examples of public goods include public parks, roads, street lights, national defense etc. These goods need to be financed by taxation. Public goods may give rise to the "free rider problem". This may lead to the under-provision of certain goods or services.

3) What is a free rider and free rider problem?

A free-rider is a person who receives the benefit of a good without paying for it.

The free rider problem is an economic concept of a market failure that occurs when people are benefiting from resources, goods, or services that they do not pay for. If there are too many free riders, the resources, goods, or services may be underprovided. Therefore, this would create a free rider problem.

4) What are the main characteristics of pure public goods?

The characteristics of pure public goods are:

- **Non-excludability:** The benefits derived from pure public goods cannot be confined solely to those who have paid for it. In fact non-payers can enjoy the benefits of consumption at no financial cost –the 'free-rider' problem.
- **Non-rival consumption:** Consumption by one consumer does not restrict consumption by other consumers. If it is supplied to one person, it is available to all.
- **Non-rejectable:** There is collective supply of a public good for everyone. This means that it cannot be rejected by any single individual, a good example is a nuclear defense system or flood defence projects.

There are relatively few examples of pure public goods.

Examples include flood control systems, public water supplies, street lighting for roads and motorways, lighthouse protection for ships and also national defence services.

5) **What are Quasi-Public Goods?**

A quasi-public good is a near-public good i.e. it has many but not all the characteristics of a public good. Quasi public goods are:

- Semi-non-rival: up to a point, extra consumers using a park, beach or road reduce the space available for others. Eventually beaches become crowded as do parks and other leisure facilities. Open access Wi-Fi networks become crowded
- Semi-non-excludable: it is possible but often difficult or expensive to exclude non-paying consumers. E.g. fencing a park or beach and charging an entrance fee; building toll booths to charge for road usage on congested routes.

6) **What are merit goods?**

Merit goods are those goods and services that the government feels are beneficial and people will under-consume if left to market forces. These ought to be subsidised or provided free at the point of use so that consumption does not depend primarily on the ability to pay for the good or service. For example Government providing education and health facilities for those who cannot afford them.

7) **Why does the government provide merit goods and services?**

- To encourage consumption so that positive externalities of merit goods can be achieved for example free inoculation against infectious diseases.
- To overcome the information failures linked to merit goods.
- On grounds of equity – because the government believes that consumption should not be based solely on the grounds of ability to pay for a good or service.

8) What are the key differences between merit and public goods?

Comparing Merit Goods and Public Goods

Merit Goods	Public Goods
• Provided by both public & private sector	• Normally funded and provided by the government
• Positive marginal cost of supplying to extra users	• Collective consumption – provide to one and you provide to all
• Limited in supply – potentially high opportunity cost	• Largely unconstrained in supply
• Rival – consumption by one reduces availability to others	• Non-rival in consumption
• Excludable e.g. private health care and education	• Non-excludable – giving rise to the free rider problem
• Rejectable by those unwilling to pay for the good or service	• Non-rejectable – usually funded by general taxes