**UNIT 4**

 **Public Goods**

Public goods refer to goods which satisfy public wants. Public goods arecharacterised as those which are jointly supplied. The benefit from consumption of publicgoods is consumed jointly by more than one person. The consumption by one person doesnot reduce the amount that can be made available to other consumers. The consumptionof a public good is non-rival.

Public goods are defined as products where, for any given output, consumption by additional consumers does not reduce the quantity consumed by existing consumers. There are very few absolutely public goods, but common examples include law, parks, street-lighting, public health, defence etc. As there is no marginal cost in producing the public goods, it is generally argued that they must be provided free of charge, because otherwise the people who benefit less than the cost of using the public good, will not use it. That will lead to a loss of welfare. Also the goods are mostly non-excludable, that means that if once provided everybody can use them, which when charged will lead to "free-riding". So these goods will not be provided by free markets as there is no way to charge for the usage, the solution is, that state must provide these goods and finance them from taxes collected from everybody. Economists define a public good as being non rival and non excludable. The non rival part of this definition means that my consumption does not affect your consumption of a good; I do not "use it up". In other words, even those who do not explicitly (actually) pay for the good can benefit from the good.

**Merit Goods**

Musgrave classified public wants into social wants and merit wants. The ‗merit goods‘ was introduced into Public Finance literature by Musgrave in 1959. Merit goods are public goods but they differ from social goods because goods result in interference with consumer choice. This may be made clear with an example. The poor and economically weaker sections of the people also need good schooling, hospital facilities etc. But private schools and hospitals are maintained at a high cost which they cannot pay. Hence the stae should provide these goods to the people or supplement the private provision directly or indirectly. Direct provision would mean starting of government schools or hospitals. Indirect provision means, government gives subsidy to provide educational or hospital facilities. Such goods are merit goods. Goods whose consumption is encouraged are merit goods and whose consumption should be discouraged (liquor, narcotic drugs etc) called non-merit goods. On the other hand are products generally not distributed by means of the price system, but based on merit or need, because people although having perfect knowledge would buy the wrong amount of them. These goods can be supplied by free market, but not on the right quantity. Merit goods are, for example, education and to some extent the health-care. They are provided by state as "good for you". In other words, Merit goods are those goods and services that the government feels that people will under-consume, and which 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.

**Private Goods**

Private goods are goods which satisfy private wants. They are financed and supplied by the market for price payments. They are not come under the budgetary mechanism. The market economy adheres to two principles in the provision of private goods

**1. Exclusion principle** – exclusion principle reveals a rival relationship between goods to be classified as private goods. If a person buys a pair of shoes, it will not be available for others. This is a rival relationship. On the otherhand, the government undertakes measures to reduce air pollution. The resulting benefit is enjoyed by all who breathe, i.e., one person‘s consumption does not reduce another person‘s benefit. A private good is thus characterised by rivalry while the consumption of a pure public good is characterised by non rivalary.

**2. Revealed preference** – when people have to buy in the private market, they reveal their preferences in the purchase of products by buying what they want only. These revealed preferences through the price mechanism are the signals for the producers to produce which the people want. If the consumers do nnot reveal their preference the producers do not produce them. A private good is a product that must be purchased to be consumed, and its consumption by one individual prevents another individual from consuming it. Economists refer to private goods as rivalrous and excludable. A private good is defined in economics as "an item that yields positive benefits to people" that is excludable, i.e. its owners can exercise private property rights, preventing those who have not paid for it from using the good or consuming its benefits; and rivalrous, i.e. consumption by one necessarily prevents that of another. A private good, as an economic resource is scarce,ich can cause competition for it.