

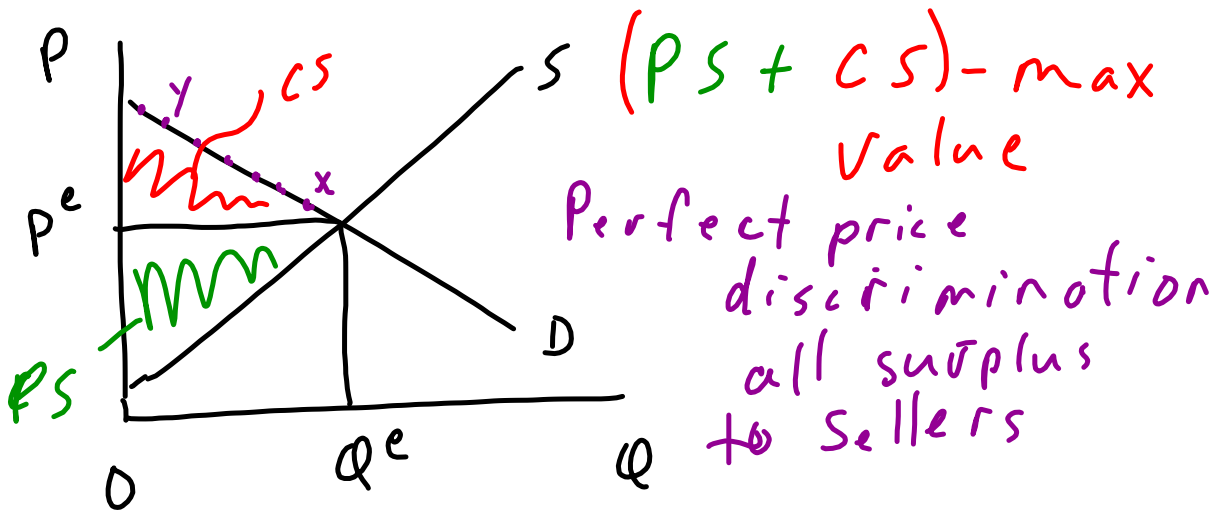
Market failure justification
for public sector?

fiscal exchange -

- Confiscate money to provide
services + goods that we
think the market will
not provide efficiency

allocative efficiency -

$$\text{Marginal Benefit} = \text{Marginal Cost}$$



technical efficiency -
↳ producing quantity at lowest possible cost

Why markets fail?

- property rights not specified
enforceable (not assigned)

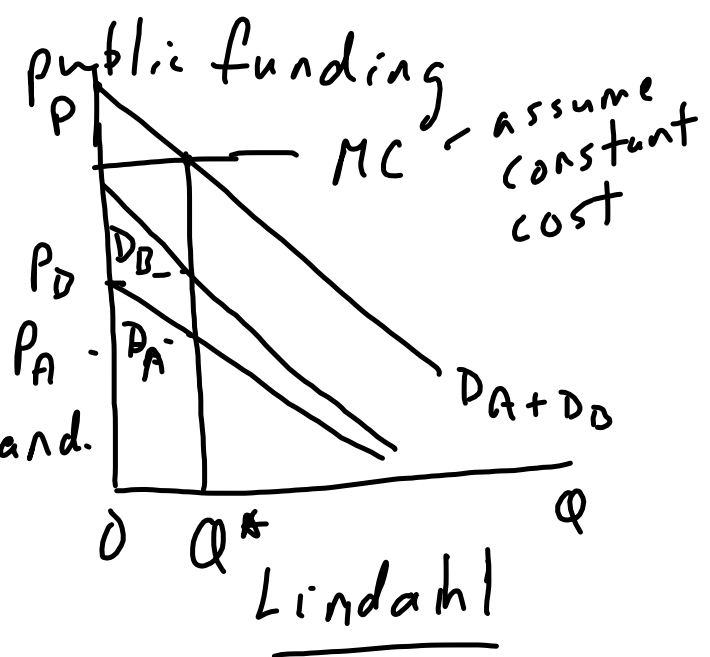
Public Goods

- not rival in consumption
- not excludable
- ↳ can't require payment

market
under provide
good.

↳ free riding

Non-rival
 Non-excludable } public funding
 $P_A \neq P_B$
 $P_A + P_B = MC$
 incentive to
 under report Demand.
 tie tax to activity
 - eg gas tax



Public funding imply public sector provision?

- technical efficiency education
 health care
 garbage collection

$$\begin{matrix} TC \\ P < G \end{matrix} \geq TC$$

Nature of good } public/private same good?

- incentives?

↳ prisons
 & K-12 education - charter to public schools
 & Health care

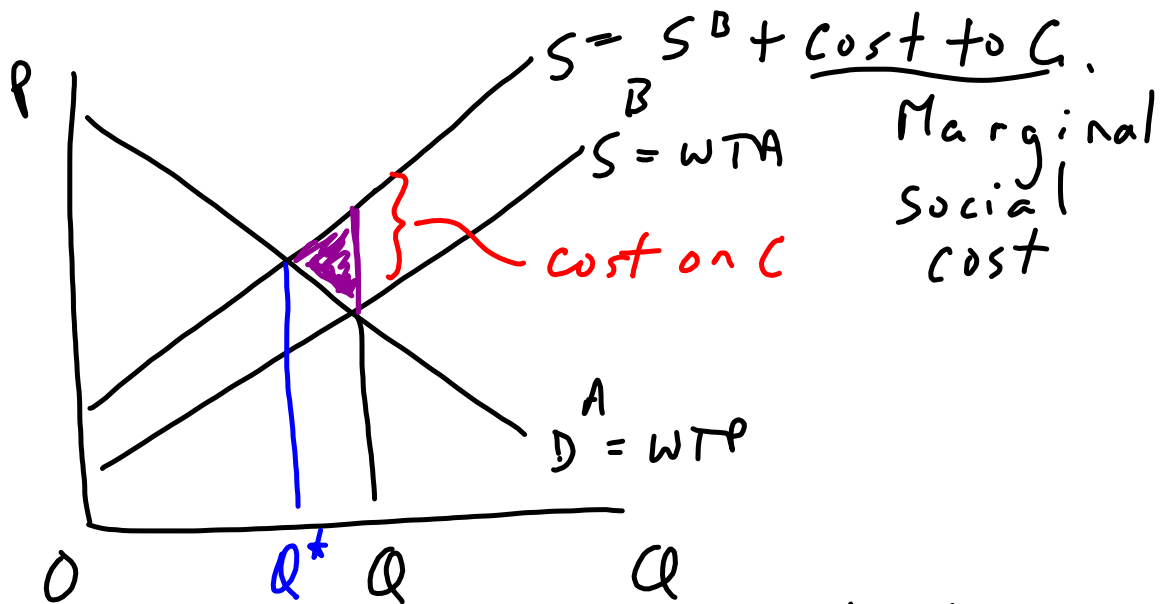
D o D - privatized support services

Q11 & Q13 Chapter 4

Public Good → Externalities
→ Common Property]

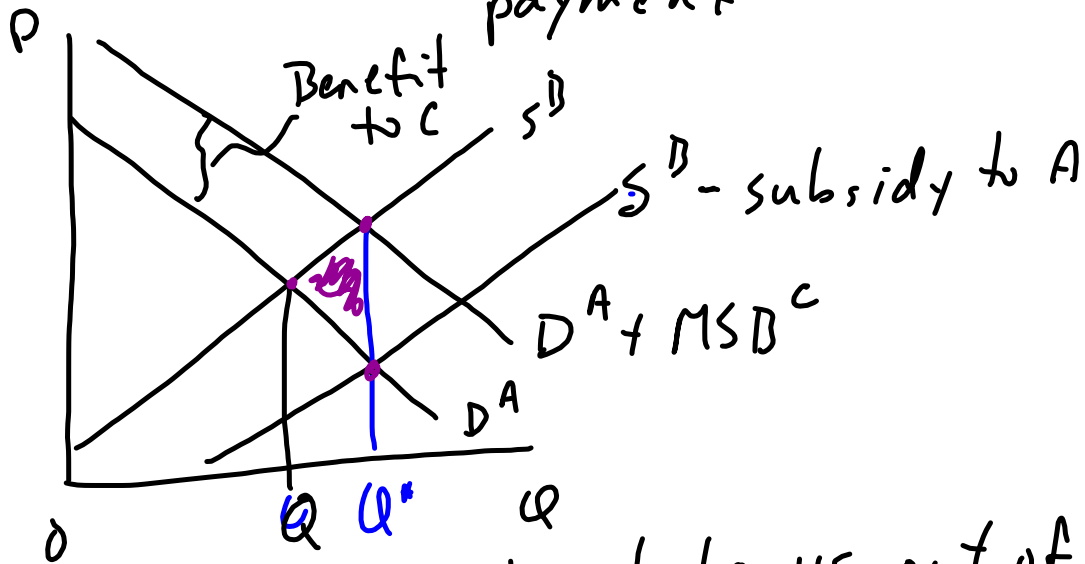
↳ spill over
contract A buy from B
in transaction → impose cost on C
C lacks property right to compel
payment for harm

A & B using unpaid resource
Quantity too large



Negative externality \rightarrow Q too large
 B not covering costs to C
 If B cover costs to C - B will act
as if is on $S^B + MSC^C$

Positive externality \rightarrow confer a benefit but can't require payment



- education - in-state vs. out of state
- subsidy to art programs
- tax credits for R+D

Private solutions to externalities

- assign property rights
- allow bargaining

2 parties → generating externalities

- suffering externality
- externalities are reciprocal.

to avoid harm to A impose cost on B

Ronald
Coase
1960
J. Law + Economics

