

# Exam 2 Notes

10/04/2014

- ▯ 9/17/14 (After 1<sup>st</sup> Exam)
- ▯ Ch. 5
- ▯ Equilibrium - gives you the efficient quantity and the efficient price
- ▯ Demand curve - value or **BENEFIT** people see in this good
- ▯ Supply curve - costs associated with this good
- ▯ Market Failure - situation where the market...left to its own devices fails to produce the efficient level of output (pg. 140)
  - Justifies government intervention in the market
  - Correct/Best/Optimal
- ▯
- ▯ Government intervention in the economy-price floors or price ceilings-can reduce economic efficiency
- ▯ Government intervention may actually increase economic efficiency and enhance the well-being of society (pg. 138)
- ▯ Public Goods - provided by local government
  - state highway, street light (pg. 151)
- ▯
- ▯ Public goods characterized by:
  - Non-rival consumption
    - o Most goods if, I "consume" it no one else can "consume" it
    - o That's RIVAL
    - o Public goods, one person "consuming" it doesn't prevent another person from "consuming" the same good
    - o That's NON-Rival

- Non-exclusion
  - o Most goods, if you pay for it you get it, and if you don't pay for it you don't get it
  - o That's EXCLUSION
  - o Public goods, in many cases you cant keep someone from "getting" the good just because they didn't pay for it
  - o That's NON-Exclusion
  - o Excludable: New shirt; ticket to a concert

(The class I'm sitting in right now - not the information)

□ Free-Rider Problem & Mosquito Spraying

- Because of the free-rider problem, there would be no demand..
- And therefore no supply
- So the market would "fail" with this good
- So we take the decision out of the hands of the market

□

□ What is/is not public good?

- National defense v. Fire Protection
- Non-rival consumption?
- Non-excludable?
- Health Care?

Four Categories of Goods (pg.154)

TL - Private Goods:

- Starbucks' Lattes
- Levis Jeans

□ TR - Common Resources:

- Fish in the ocean

□ BL - Quasi-Public Goods

- Cable TV

□ BR - Public Goods:

- National Defense
- Mosquito Spraying

□

□ Is the internet a public GOOD?

□

□ Externalities (pg. 138)

- Unintended consequence
  - o Cost of benefits caused by a transaction that aren't part of the transaction
  - o A benefit or a cost that affects someone who is not directly involved in the production or consumption of a good/service
    - Neighbor buys/plants apple tree
    - Costs \$300
    - Branches hang over your property
    - Everyday apples fall on in your yard
      - Positive Externality