<u>SUBJECT-ECONOMICS</u>

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UNIT-I

PUBLIC GOODS, PRIVATE GOODS AND MERIT GOODS

PUBLIC GOODS

Public goods are those goods and services which are jointly and equally consumed by many people at the same time, and its consumption by one person does not alter its availability for another person. These goods may not be produced through the free market price mechanism.eg. public roads,dams, defence and education services,etc.

Characteristics of public goods:

1. They are non-rivalrous i.e.no one has an exclusive right over the consumption of the good.

2. They are non excludable i.e. if one person consumes a good it is not possible to prevent others from consuming it.

3. These goods are of collective consumption.

4. These goods may not be produced through the free market pricing mechanism.

5. They are indivisible.

6. The consumption of a public good is always joint and equal.

7. Public goods create externalities or divergences between social and private benefits.

8. People can enjoy the benefits of public goods whether they pay for them or not which is the so called free- rider problem.

PRIVATE GOODS

Private goods are those goods and services which satisfy individual wants and have the characteristics of rivalry and exclusiveness.They can be produced by the free market pricing mechanism,eg.food, clothing, shelter, transportation and communication,etc.

Characteristics of Private goods:

1. Private goods are rivalrous in consumption.

2. These goods are subject to the exclusion principle.

3. They satisfy individual wants.

4. These goods can be produced through free market pricing mechanism.

5. These are divisible in so far as their use is concerned.

6. Marginal cost of providing a private good to an extra consumer is always positive.

7. They reveal the preference of the consumers through effective demand and market price which are the signals for the producers to produce the goods the individuals want.

MERIT GOODS

Those goods whose consumption and use are to be encouraged are called merit goods(eg.education) and goods whose consumption and use has to be discouraged are called non merit goods or demerit goods (eg. liquor,narcotic etc.) Merit goods are socially desirable goods which promote social welfare. They are rival and excludable.Government provides merit goods in order to ensure distributional justice.These are goods which government feel if people will under consume or produce and therefore should be subsidised or provided free.eg. housing, education, mid day meals in schools, essential food articles, health care etc. **This concept was introduced by Prof.R.A. Musgrave in 1959. He classified public goods into two categories: (1) Social Wants (2) Merit Wants**

Differences between Social Wants and Merit Wants:

1. The satisfaction of social wants provides benefit to all while the satisfaction of merit wants interferes with consumer preferences.

2. Social wants are subject to the conditions of non-rivalry and non-excludability, but merit wants may or may not be subject to these conditions.

3. Merit wants may have a substantial element of social wants.They will confer immediate benefits on those who are in immediate need of of them like free education and healthcare but the community as a whole benefits because it becomes more healthier and educated.

4. When the consideration behind the satisfaction of a merit want is the welfare of an individual or a particular section of society,the objective behind the satisfaction of social wants is the welfare of the entire society.

DIFFERENCE BETWEEN PUBLIC AND PRIVATE GOODS:

1. Public goods satisfy social wants or merit wants while private goods satisfy individual wants.

2. Public goods are non rival in consumption while private goods are rivalrous.

3. Public goods are non exclusive whereas private goods permit exclusion.

4. Public goods cannot be provided by the free market price mechanism while private goods are priced in the market.

5. The marginal cost of providing a private good to an extra consumer is positive while in the case of a public goods it is zero.

6. The efficient level of production of a private good is achieved when the marginal benefit and the marginal cost are equal. But with a public good, we have to ask how much each person values an additional unit of output and how to add them and then we equate them to the marginal cost of production.

7. Private goods can be provided by the market system, but public goods can be provided only by the public sector through budgetary provisions.

8. Private goods are divisible in so far as their use is concerned but this is not the case with some public goods.

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