

External Cost \rightarrow External Effect on those outside of the market

I Externalities

II Public Goods

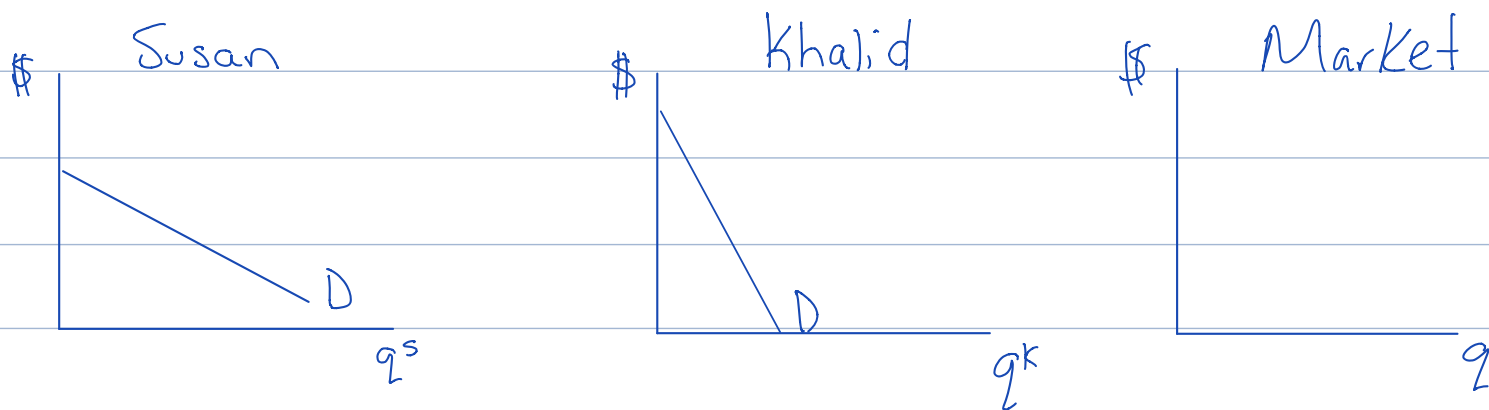
• Characteristics :

1. Excludability

2. Depletability (Rival)

• Problems / Issues

\rightarrow Free Riding (someone else pays, and then you use them w/o paying)



D = Marginal Benefit

Read - Sources of Inefficiencies by Tom Tietenberg
- to fill in the Market Figure above.

There is tension between cooperative provision and private provision. Prisoner's Dilemma says

that it's best to wait for the other person to provide than to cooperatively come together and provide the good

Note - In Microeconomics "Natural Monopolies" exist when there are such large economies of scale (?)

- Things like "Electricity" in Canada
- Serves as incentive for a single provider
- But what about the Monopoly?
- Private Company is a single provider
BUT not a price setter
INSTEAD the government acts as a price regulator.

Game Theory: Prisoner's Dilemma OR "The SUV Game"

Q: Why do we buy SUV's when we know that they are BAD?

A: People are susceptible to manufactured need

Citizen 2

E S

Citizen 1	E	(50, 50)	(25, 75)	E = Economy S = SUV
	S	(75, 25)	(35, 35)	

Dominant Strategy = S

This shows that despite the increased pollution, people enjoy the SUV enough to offset the pollution they create.

Aka people cannot be expected to arrive @ the best outcome for all without collective action

Public Good = Clean Air

Public Bad = Pollution

↳ Consumed by accident 😞

↳ non excludable & non rival

We can apply techniques from evaluating Public Goods & Externalities to the same issues.

III Government Policy Features

• Perverse Tax Incentives

• Perverse Subsidies

• Perverse Institutional Rules

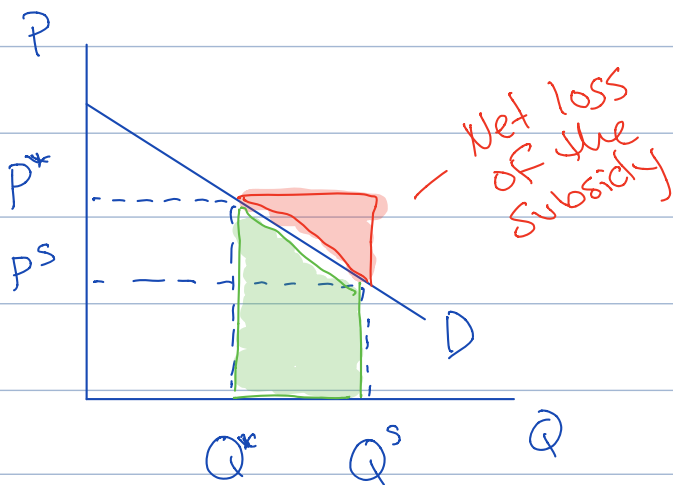
unanticipated
have unexpected OR
consequences

our main focus

ie) Tax incentive to de-tree settler Canada
↳ then they cut down the trees

Paper : Burniaux & Chateau (2014) "Greenhouse Gases Mitigation ..."

Subsidies on Oil & Natural Gas consumption
↳ Efficiency? Nope but we'll talk about that later



P^s - subsidized price
 Q^s - subsidized quantity

Rationale : Poor people don't buy gas so
lets let them buy gas

Reality : Benefit to Rich & Middle Income
individuals (have cars) and not
poor people (who don't have cars)

Prior

How to actually help the poor when you don't
know who they are or where they
are?

↳ Subsidize the things they actually use.

Now

↳ Ineffective, need a way to give people money & not have them abuse the social welfare ie) India Retina Scan