

CONCEPT: THE FREE RIDER PROBLEM AND THE TRAGEDY OF THE COMMONS

- Public Goods will suffer from the **free-rider problem**. Public goods are _____ in private market.
 - A **free-rider** is a person who receives the benefit of a good without _____.

Fireworks Show:

Dynamite Bill wants to provide show for _____

100 townsfolk each value show at _____

100 townsfolk would likely pay _____

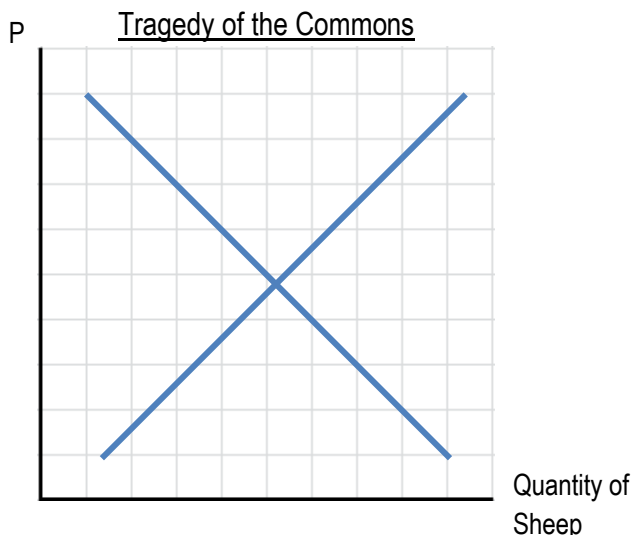
- Moral of the story → The free-rider problem prevents the _____ from supplying public goods. Governments, thus, provide public goods, but only if _____.

- Common resources will suffer from the **tragedy of the commons**

- Common resources tend to be _____

“Macdeath” by Brian				
ACT I	ACT II	ACT III	ACT IV	Act V
Johnny Clutch, a shepherd, arrives in Smalltown, a utopia with free common grazing land.	Johnny Clutch grazes his two sheep in the common pasture, earning profit selling his wool.	Hearing of the lucrative wool business, more people move to Smalltown to graze their sheep.	Since so many sheep graze on the common pasture, the field becomes barren.	

- Moral of the story → The tragedy of the commons arises because of an _____. We need clearly defined property rights!



PRACTICE: Making customers pay per use of a public good is inefficient because:

- a) It results in deadweight loss
- b) MC of the use of the public good once provided is zero
- c) It uses willingness to pay as a measure of preferences
- d) Both (a) and (b)

PRACTICE: In the case of a shared pasture, what is the rational strategy of herdsmen acting in their own best interests?

- a) Have fewer cows
- b) Buy more cows
- c) Have the same amount of cows as your neighbor
- d) None of the above

PRACTICE: Which of the following environmental issues is not an example of the tragedy of the commons?

- a) Increased atmospheric carbon dioxide due to burning of fossil fuels
- b) Spread of an invasive species
- c) Depletion of fish stocks in the world's oceans
- d) Deforestation