

ECON 5103 Unit 13, Video 2

Government in the marketplace, part II

Public Goods

Externalities

5103-unit13-2 Page 1

Public goods: Non-rival and non-excludable products

Non-rival: One person's consumption of a product does not reduce the amount available for others to consume.

Example: Satellite radio

NOT an example: A hamburger

Non-excludable: It is physically very difficult to prevent people who don't pay from consuming the good.

Example: Missile defense system

Example: Light emitted by the lighthouse

NOT an example: Satellite radio

5103-unit13-2 Page 2

It is not possible for a private firm to make a profit selling public goods directly to consumers. Hence, public goods are usually directly produced by government or paid for by government.

Example: Public fireworks display
The Military

5103-unit13-2 Page 3

Externalities: Costs or benefits of an activity that accrue to people who are not directly involved in the activity.

Example (positive): You get a flu shot.
Externality--people can't get the flu from you

Example (negative): You run a paper mill.
Externality--the paper mill produces a foul stench for miles, harming the residents of the area.

5103-unit13-2 Page 4

Major U.S. Federal Laws meant to reduce negative externalities:

Clean Water Act (1972, 1977, 1987)

Clean Air Act (1963, 1967, 1970, 1977, 1990)

Superfund aka "CERCLA" (1980)

State and Local Governments also have environmental laws

- ▣ TITLE 5. SANITATION AND ENVIRONMENTAL QUALITY
 - ▣ SUBTITLE A. SANITATION
 - ▣ CHAPTER 341. MINIMUM STANDARDS OF SANITATION AND HEALTH PROTECTION MEASURES
 - ▣ CHAPTER 342. LOCAL REGULATION OF SANITATION   
 - ▣ CHAPTER 343. ABATEMENT OF PUBLIC NUISANCES   
 - ▣ CHAPTER 344. MOSQUITO CONTROL DISTRICTS   
 - ▣ CHAPTER 345. BEDDING   
 - ▣ SUBTITLE B. SOLID WASTE, TOXIC CHEMICALS, SEWAGE, LITTER, AND WATER
 - ▣ CHAPTER 361. SOLID WASTE DISPOSAL ACT   
 - ▣ CHAPTER 362. SOLID WASTE RESOURCE RECOVERY FINANCING ACT   
 - ▣ CHAPTER 363. MUNICIPAL SOLID WASTE   
 - ▣ CHAPTER 364. COUNTY SOLID WASTE   
 - ▣ CHAPTER 365. LITTER   
 - ▣ CHAPTER 366. ON-SITE SEWAGE DISPOSAL SYSTEMS   
 - ▣ CHAPTER 367. ON-SITE WASTEWATER TREATMENT RESEARCH COUNCIL   
 - ▣ CHAPTER 368. COUNTY REGULATION OF TRANSPORTATION OF WASTE   
 - ▣ CHAPTER 369. PLASTIC CONTAINERS   

Probable New Federal Regulation: Controlling Greenhouse Gases

Concept: Reduce the emission of greenhouse gases to reduce global warming and other negative externalities

5103-unit13-2 Page 7

One option to reduce greenhouse gases:

Cap and Trade



The screenshot shows the official website of the U.S. House of Representatives Committee on Energy and Commerce. The header features the committee's name and a navigation menu with links for Home, Schedule, Publications, Hearings, Markups, and About the Committee. The main content area displays a breadcrumb trail: Home > Publications > Legislation > The American Clean Energy and Security Act (H.R. 2454). Below this, the title "The American Clean Energy and Security Act (H.R. 2454)" is followed by a "Publications" section dated Monday, 01 June 2009 17:27. The text describes the act's passage on May 21, 2009, by a vote of 33 to 25, and outlines its goals: creating clean energy jobs, reducing energy costs, enhancing energy independence, and cutting global warming pollution. It also notes the act's broad support from various stakeholders and its final passage by the House on June 26, 2009.

5103-unit13-2 Page 8

Cap and Trade:

1st: Government sets a national limit on the amount of greenhouse gases that can be emitted per year.

2nd: Government either i) auctions gas emissions permits to firms or ii) gives them away to firms

3rd: Over time if government wishes to reduce the annual emissions of greenhouse gases, it can either i) buy some permits back, and destroy them or ii) take some permits away from some firms.

Cap and Trade, II:

Firms can buy emission permits if they need some.

Firms can sell pollution permits if they think it is economically wise.

Example: Another firm offers so much for a permit that you sell yours to them, then close your business.

Example: You figure out a cheap way to produce your product with less emissions, leaving you an extra emissions permit to sell.

Another option to reduce greenhouse gases:

Carbon Tax

People and firms who emit greenhouse gases must pay a tax per ton of gas they emit.

If government wishes to reduce total greenhouse gas emissions in the nation, then it increases the carbon tax rate.