

TASK 2 PUBLIC GOODS AND SERVICES

Worksheet

Focus: Economics

YOU WILL:

- ▶ investigate goods and services provided by governments in your local area
- ▶ distinguish between public goods and public sector goods
- ▶ use examples of public goods in your local area to explain how the characteristics of public goods apply
- ▶ explain how the free-rider problem applies to public goods in your local area
- ▶ explain why governments intervene in the market to provide goods and services

YOU WILL NEED:

- ▶ *Fact sheet: How is tax revenue spent?*

Governments provide goods and services that are socially desirable and benefit the community. They are made available to all people and paid for by government revenue because their consumption is associated with positive externalities. Without government provision of these goods and services, insufficient resources would be allocated, and the goods and services would be underproduced. The government provides both public goods and public sector goods (merit goods). Public goods are:

- ▶ Non-excludable – everyone can consume the goods whether they pay or not
- ▶ Non-rival – consumption by one person doesn't reduce consumption for others

Because public goods are non-excludable it is difficult to charge people for benefiting from them once they are provided. This means that there is no incentive for firms to produce these goods as people will not pay for them. This is known as the free rider problem. Examples of public goods include the ABC, national defence and street lighting.

Governments also provide public sector goods and services that benefit the community (known as merit goods) that are excludable. These include education, health, galleries, roads and public transport.

Not all public sector goods are public goods. If they are excludable they are not public goods.

INVESTIGATE

1. Identify as many goods and services that governments provide in your local area. Categorise these as either public goods or public sector goods.
2. Using examples from your local community, describe the characteristics of a public good. Explain how these characteristics lead to the free rider problem.
3. Explain why the public sector goods and services you identified in your local area are excludable (for example, people pay to use public transport).
4. Explain why governments provide public goods and public sector goods and services.
5. Develop an evidence-based conclusion on why government spending benefits the community.