

Classification of goods and services

Private goods

- ◆ A private good is a product that must be purchased to be consumed, and consumption by one individual prevents another individual from consuming it. In other words, a good is considered to be a private good if there is competition between individuals to obtain the good and if consuming the good prevents someone else from consuming it.
- ◆ They have two important characteristics:

Excludability and Rivalry

Excludability: where it is possible to exclude one from consumption

Rivalry: where consumption by one person reduces availability for others

	Excludable	Non-Excludable
Rivalrous	Private Goods Food, clothes, cars and other consumer goods	Common Goods Fish, timber, coal
Non-Rivalrous	Club Goods Cinemas, private parks, satellite TV	Public Goods air, national defence

Public goods

There are two specific characteristics of a public good. These are:

It must be **non-excludable**. This means that once the good has been provided for one consumer, it is impossible to stop all other consumers from benefitting from the good.

It must also be **non-rival**. As more and more people consume the good, the benefit to those already consuming the product must not be diminished.

Once a lighthouse is built to warn one ship at sea away from a dangerous area of rocks, then by its very nature, this service will automatically be provided to all ships that sail within a certain distance of the lighthouse. It is non-excludable. Equally, the fact that other ships see the light given by the lighthouse and are warned away from dangerous rocks does not reduce the benefit that any one particular ship receives from that warning. It is non-rival. However, very few goods are purely public goods in the sense that they match both of the above characteristics in full.



Quasi-public goods

- ◆ Quasi public goods are semi-non-rival and semi-non-excludable.
- ◆ Semi-non-rival is up to point, more consumers using a park, beach or road do not reduce the space available for others. But eventually beaches, become crowded as do parks/leisure facilities. Open-access Wi-Fi networks become crowded.
- ◆ Semi-non-excludable: It is possible but difficult or costly to exclude non-paying consumers. Example fencing a park or beach and charging an entrance fee; or building toll booths on congested road routes.

Merit goods, demerit goods

- ♦ Merit good is people underestimate benefits. Has positive externalities, e.g. education.

Merit goods are those goods and services that the government feels that people will under-consume, and which ought to be subsidised or provided free at the point of use so that consumption does not depend primarily on the ability to pay for the good or service.

- ♦ Demerit good is people underestimate costs. Has negative externalities, e.g. drugs/alcohol.

A demerit good is defined as a good which can have a negative impact on the consumer but these damaging effects may be unknown or ignored by the consumer. Demerit goods also usually have negative externalities – where consumption causes a harmful effect on a third party.