Chapter 11

- 1. Consider the rivalry and excludability of each of the following goods. Use this information to determine whether the goods are public goods, private goods, common resources, or produced by a natural monopoly. Explain.
- a. Fish in a private pond
- b. Fish in the ocean
- c. Broadcast television signals
- d. Cable television signals
- e. Basic research on lifestyle and cholesterol levels
- f. Specific research on a cholesterol lowering drug for which a patent can be obtained
- g. An uncongested highway (no tolls)
- h. A congested highway (no tolls)
- i. An uncongested toll road
- j. A hot dog served at a private party
- k. A hot dog sold at a stand owned by the city government
- Suppose the city of Roadville is debating whether to build a new motorway from its airport to the city centre. The city surveys its citizens and finds that, on average, each of the one million residents values the new highway at a value of €50 and the highway costs €40 million to construct.
- a. Assuming the survey was accurate, is building a new motorway efficient? Why?
- b. Under what conditions would private industry build the road?
- c. Should the city build the road? On average, how much should it increase each resident's tax bill to pay for the road?
- d. Is it certain that building the motorway is efficient? That is, what are the problems associated with using cost-benefit analysis as a tool for deciding whether to provide a public good?