

Government & the Economy

- » a. Explain why government provides public goods and services, redistributes income, protects property rights, and resolves market failures.
- » b. Give examples of government regulation and deregulation and their effects on consumers and producers.

Public Goods

- » Shared, non-exclusive goods (or services), provided by government
- » There is no profit incentive for the private sector to provide these items
- » Creates **Free-Riders** (people who enjoy the benefits w/o directly paying for them)

Redistribute Income

- » Government provides for public well-being by assisting specific groups
- » **Like Who??**: elderly, ill, poor
- » Income Redistribution is accomplished by using tax revenue to help citizens in need
- » **Examples**:
 - 1) social insurance programs (Social Security),
 - 2) public assistance (welfare)

Resolves Market Failures

- » **Market Failure**- a situation in which the free market, operating on its own, does not distribute resources efficiently.
- » Result: government provides public goods

Externalities

- » An economic side effect of a good or service that generates benefits or costs to a third party.

Types of Externalities

- » Note: Any item can generate both types of externalities
- » Positive → benefits gained.
- » Negative → costs incurred.
- » **Answer each of the following for Interstate Highways**:
 - Market Failure
 - Positive Externalities
 - Negative Externalities