

# 6 Public goods and inequality – Part 2

Name: \_\_\_\_\_ Class: \_\_\_\_\_ Date: \_\_\_\_\_

## Vocabulary

*Write each word three times.*

**English**

**Write it 3 times** (English)

public good

free-ride

Lorenz curve

Gini coefficient

## Recall

In Part A you met externalities. Now two more reasons markets need help:

- Some things (like street lighting) would never be provided by a shop.
- Market incomes can be very unequal.

Each idea has a worked example before the Practice.

## New ideas

### ■ 1 Rival and excludable

Goods differ in two ways: is one person's use at another's expense (**rival**), and can non-payers be kept out (**excludable**)?

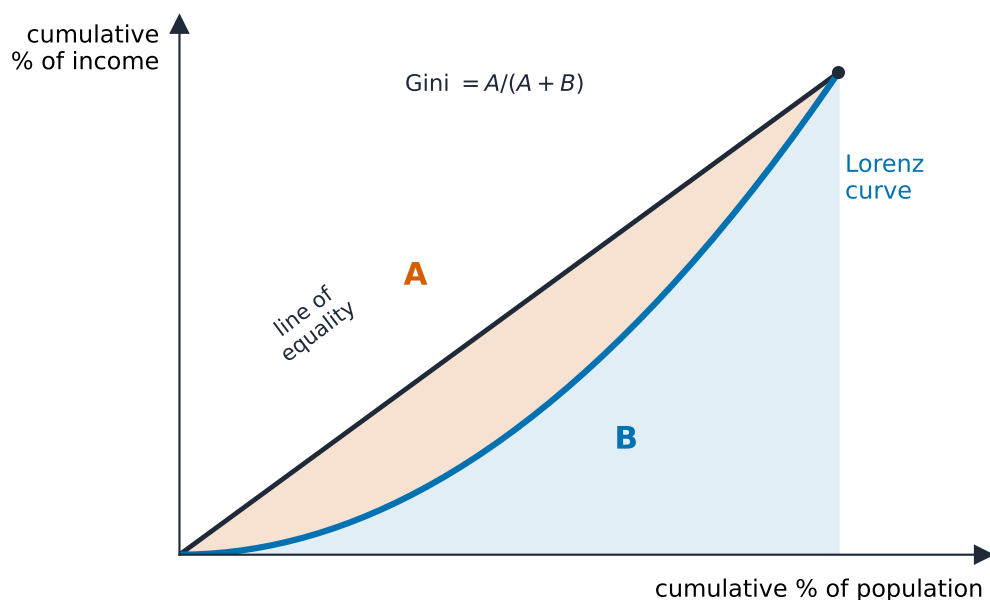
|           | Excludable                            | Non-excludable                              |
|-----------|---------------------------------------|---------------------------------------------|
| Rival     | <b>Private good</b><br>food, clothes  | <b>Common resource</b><br>ocean fish, air   |
| Non-rival | <b>Club good</b><br>cinema, toll road | <b>Public good</b><br>street light, defence |

## ■ 2 Public goods

A **public good** is **non-rival and non-excludable** (national defence, street lighting). Since non-payers cannot be excluded, people **free-ride**, so markets **under-provide** it – and government usually supplies it.

## ■ 3 Measuring inequality

Market incomes can be very unequal. The **Lorenz curve** plots the share of income against the share of population; the further it bows from the diagonal, the more unequal.



#### ■ 4 The Gini coefficient

The **Gini coefficient** summarizes this in one number: 0 means perfect equality, 1 means perfect inequality.

**Watch out:** a **public** good is not just any good the government provides – it must be **non-rival and non-excludable**. A public hospital's beds are rival (one patient's use blocks another's), so healthcare is not a pure public good.

### Practice

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Try these in order. The methods are all above.

**2.1** State the two features that define a public good. [2]

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**2.2** Explain why markets under-provide public goods (use the idea of free-riding). [2]

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**2.3** Give one example of a public good. [1]

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**2.4** State what a Gini coefficient of 0 and of 1 each mean. [2]

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**2.5** State what a Lorenz curve that bows far from the diagonal tells you. [1]

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