NO PREP

Public Goods & Services

What Government Provides and Why

Includes: Student reading, case study, differentiated questions, teacher key

Name: Period: Date:

Public Goods & Services: What Government Provides and Why

The Nature of Public Goods

A public good exhibits two defining characteristics: it is non-rivalrous (one person's use does not diminish another's) and non-excludable (no one can be effectively barred from using it). Classic examples include national defense, which protects all citizens equally, and street lighting, which illuminates roads without limiting access. Private firms struggle to profit from non-excludable goods, so governments step in to ensure they're supplied at socially optimal levels. When markets alone provide these goods, free-riding—benefiting without paying—leads to chronic under-provision. Recognizing these features explains why certain services reside in the public sector and how societies decide what to supply collectively.

Name: **Period:** **Date:**

Public Goods & Services: What Government Provides and Why

The Nature of Public Goods

A public good exhibits two defining characteristics: it is non-rivalrous (one person's use does not diminish another's) and non-excludable (no one can be effectively barred from using it). Classic examples include national defense, which protects all citizens equally, and street lighting, which illuminates roads without limiting access. Private firms struggle to profit from non-excludable goods, so governments step in to ensure they're supplied at socially optimal levels. When markets alone provide these goods, free-riding (benefiting without paying) leads to chronic under-provision. Recognizing these features explains why certain services reside in the public sector and how societies decide what to supply collectively.

Types and Examples of Government Services

Governments also deliver services that blend public-good and private-good elements. Consider: By examining each service's mix of non-rivalry and excludability, policymakers tailor funding and access rules. This strikes a balance between efficiency (getting the right amount) and equity (sharing costs fairly).

Provision Mechanisms: Direct Supply vs. Vouchers

Governments can supply services through: Direct supply, where agencies own assets and employ staff (e.g., border patrol, traffic control). Voucher/subsidy models, in which public funds follow the user to private providers (e.g., school or health-care vouchers). Vouchers introduce consumer choice and competition, potentially improving quality and containing costs, but require robust oversight to prevent cream-skimming and to guarantee universal access.

Free-Rider Problem and Financing Solutions

To counter free-riding, governments rely on compulsory taxation (income, property, sales) so everyone contributes. They also use user fees and congestion charges (toll roads, peak-hour parking) to align costs with usage. Public-private partnerships (PPPs) leverage private capital—such as toll bridges—under regulatory contracts that guarantee access. Each financing approach must reconcile who pays (fairness), how much they pay (efficiency), and administrative feasibility.

Key Information

Service Description	Government Service
Protection of all residents from external threats	National defense
Open-access recreational green spaces	Public parks
Citywide illumination for safety and visibility	Street lighting
Free or low-cost basic schooling	Public education
Maintenance of law and order through policing	Law enforcement

Case Study Excerpt: City Z's Urban Park Transformation

City Z faced dwindling green space, rising pollution, and health disparities. In 2018, it launched the "Green Heart" initiative. The city converted 200 acres of derelict land in low-income neighborhoods into an open-access park with trails, playgrounds, and community gardens. To fund maintenance, City Z raised local property taxes modestly—spreading costs across all properties—to pay landscaping crews and patrols. A small concession fee charged food stalls and bike rentals within the park funded amenity upgrades. For equity, a park-voucher program gave seniors and low-income families $100 vouchers redeemable for guided fitness classes and workshops. By 2021, visitor counts rose 40%, asthma hospitalizations fell 15%, and nearby small businesses flourished—demonstrating how compulsory taxes, user fees, and targeted vouchers can deliver universal benefits and support vulnerable groups.

1. Which financing mechanisms in the Green Heart initiative addressed the free-rider problem?

2. How did the voucher component enhance equity without undermining universal access?

Multiple Choice

1. A non-rivalrous and non-excludable good is best illustrated by:
    a) National defense
    b) Club memberships
    c) Private education services
    d) Congestion-priced toll roads

2. Which mechanism uses private providers but maintains universal access?

a) Exclusive licensing

b) Voucher programs

c) Direct government provision

d) Privatization without subsidies

3. Charging a fee only during peak hours to reduce overuse is an example of:

a) Public-private partnership

b) Compulsory taxation

c) Congestion charge

d) Free-rider subsidy

Matching

Write the letter of the correct definition on the line next to each term.

Term	Definition
1. ___ Good funded by taxes, available to all without exclusion	A) Congestion charge
2. ___ Small payment by vendors operating within a public facility	B) Free-rider problem
3. ___ Monthly parking charge that varies by time of day	C) Voucher program
4. ___ Distributed to target groups for specific uses	D) Concession fee
5. ___ Citizen's inability to avoid benefiting without paying	E) Non-excludable public good

Fill-in-the-Blank

1. A public good is _____ and non-excludable.

2. Vouchers introduce _____ choice into public service provision.

3. The _____ problem arises when individuals benefit without contributing.

Short Answer

Answer each question in 2-4 complete sentences.

1. Explain why direct supply is often preferred for national defense.

_____

_____

_____

2. Describe one advantage and one drawback of using user fees.

_____

_____

_____

3. Summarize how PPPs can leverage private investment for public goods.

_____

_____

_____