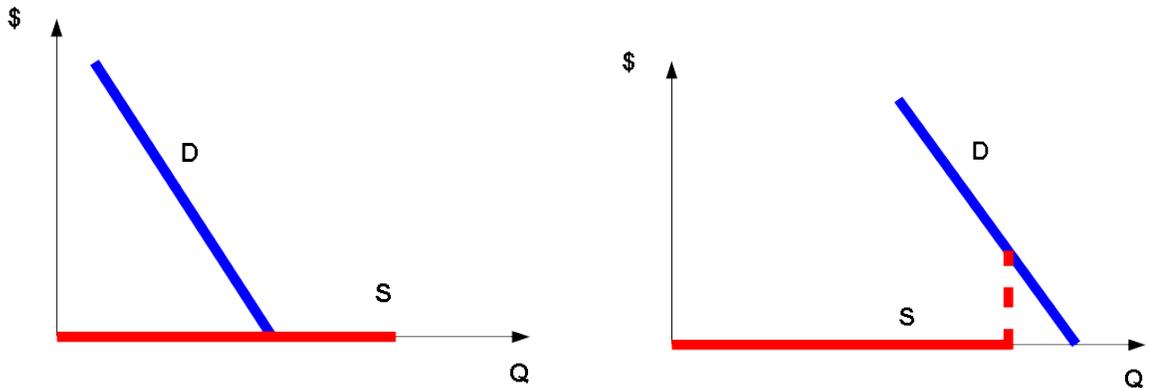


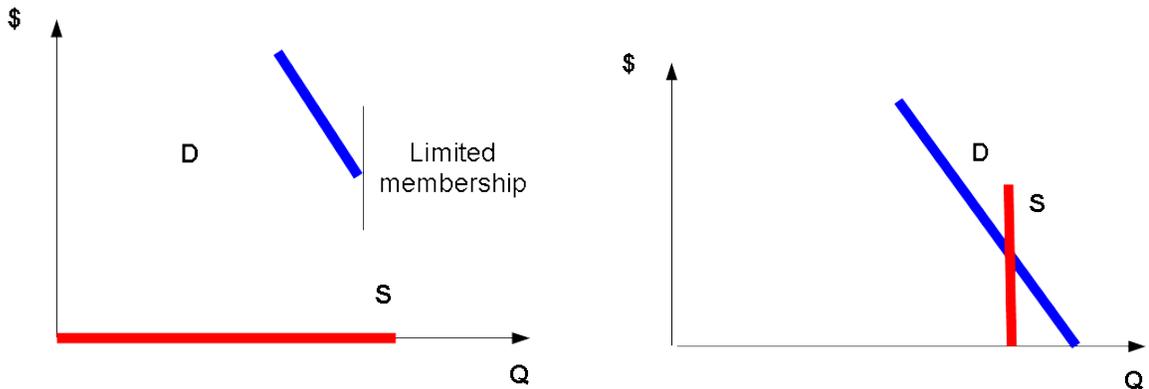
1. Describe how a good can go from having public good characteristics to common-pool (or open-access) characteristics, using supply and demand. It will be easier if you think of a specific good (like shoes, except that shoes don't work well for these questions).

A public good (non-rival, non-excludable) means that supply is greater than demand at a price of zero [left figure]; when demand exceeds this supply (and price is still zero), then the good is rival [right figure]. The “price” will rise above zero because people will queue, fight, search, etc. for the good. (There may be a secondary market at the clearing price.) A swimming pool is a useful example for this problem, not an apple (always a private good).



2. Describe one method for transforming that good into a club good and one method for transforming it into a private good.¹ Note which method uses ideas from Coase and which uses Ostrom.

Club good: The good can be managed by a cooperative of fewer people than we see in question 1 (from Ostrom, who discusses institutions for managing common pool goods). Only members are allowed to consume it, so the good is non-rival and excludable [left figure]. Private good: Auction (or sell) the good to high bidders, to restrain demand to supply (from Coase, who discusses allocation by value) [right figure].



¹The good does not change physically; we are changing the way it's managed.

3. *Who are the winners and losers from each transformation?*

Public to Common Pool: Winners get the good; losers do not. CP to Club: Winners are in the club; losers are not. CP to Private: Winners have higher willingness to pay (demand); losers do not (same as in a market).

4. *If you were a politician, how would you make or change policies regarding the move to private or club goods, if you represented the public interest?*

This question assumes that the good is in “continuous use,” e.g., access to a pool. The best way to ration access is with an auction/market for the private OR club good.² There’s a case for giving property rights (protection of private property or membership to the club) to those who possess the common pool good, but that may “reward” those who were violent, lucky, etc. in the first step.

5. *If you were a politician, how would you make or change policies regarding the move to private or club goods, if you represented your selfish interest?*

I would give the good to whoever gave me the biggest bribe, which is the same as the socially optimal action (willingness to pay), except I keep the money. Should I give the good to my friends or relatives who value it for less? No, if I can sell it to those with more demand and then give the money to my friends (or keep the money myself). Yes, if it’s too difficult to sell the good and then send the money to them. In that case, I would give them the good without a public auction that would reveal the value of the gift to them.

As an example, think of a government official who gives an official residence that would rent for \$10,000 per month to a friend who’s willing to pay \$2,000 per month. The friend may prefer to have the \$8,000 extra that would come from a market auction of the good to someone else, but it may be hard to do that and then give the money to the friend, instead of depositing the money in a government account. This is why many politicians allocate state assets as “gifts” to friends, instead of using them for state purposes or selling them on the open market.

²Revenues should fund public goods like law and order.