

1.6 Classification of goods and services

Name: _____ Class: _____ Date: _____

Total: 25 marks

KEY WORDS merit good 优值品 • public good 公共物品 • economic good 经济物品 • free good 免费物品
• demerit good 劣值品

Objective

Build the skills to answer exam questions on the **classification of goods and services** 物品与服务的分类 — **free and economic goods** 免费物品与经济物品, **public goods** 公共物品 (and the **free-rider problem** 搭便车问题), and **merit and demerit goods** 优值品与劣值品.

You must be able to:

- distinguish free, private, public, merit and demerit goods
- explain **rivalry** 竞争性 and **excludability** 排他性
- explain the free-rider problem and why the government provides public goods

1 Worked examples

■ Types of good

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

Exam: classify by rivalry × excludability — free-rider problem only for non-excludable goods

Private, club, common-resource and public goods

- **Private good** 私人物品: has **rivalry** 竞争性 (my use reduces yours) and **excludability** 排他性 (non-payers can be stopped).
- **Public good** 公共物品: **non-rivalry** 非竞争性 + **non-excludability** 非排他性 → the **free-rider problem** 搭便车问题 → private firms won't supply it, so the government does.
- **Merit good** 优值品 (e.g. education): under-consumed; **demerit good** 劣值品 (e.g. cigarettes): over-consumed — both from **information failure** 信息失灵.

Answer shapes: AO1 + AO2 + AO3 (analysis) + AO4 (judgement, for evaluate questions).

2 Practice

2.1 Define the term *public good*. [2]

2.2 State the two features of a private good. [2]

2.3 State the difference between a *merit* and a *demerit* good. [2]

3 Exam-style questions

3.1 A good that is non-rival and non-excludable is a:

[1]

- **A** private good
 - **B** merit good
 - **C** public good
 - **D** free good
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3.2 Explain why the **free-rider problem** means private firms will not supply a public good.

[6]

3.3 Discuss whether the government should provide all merit goods free of charge.

[12]

Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 a good that is non-rival (one person's use does not reduce the amount for others) and non-excludable (non-payers cannot be stopped from using it) (2 for both features; 1 for one).

2.2 rivalry and excludability (1 + 1).

2.3 a merit good is under-consumed because people undervalue its benefit; a demerit good is over-consumed because people underestimate its harm (2 for a clear difference; 1 for a partial idea).

3.1 C. Non-rival and non-excludable defines a public good.

3.2 [6] AO1 1–2 + AO3 up to 4 — because a public good is non-excludable, people can enjoy it without paying (free riders) → a firm cannot make buyers pay → it earns no revenue → it cannot make a profit, so it will not supply the good → the government must provide it.

3.3 [12] AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** free provision raises consumption of under-consumed merit goods (education, health), giving large external benefits to society. **Against:** it is costly (high opportunity cost and taxes), may be over-used or wasted, and some can afford to pay. Judgement: free provision is justified where external benefits are large and access matters, but full free provision of *all* merit goods may be unaffordable — targeting or subsidies may be better; it depends on the good and the budget.