

Public goods and merit goods economics essay



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The public goods, such as the defense, justice, public order and so on, cannot be supplied by private sector or individuals. Moreover, public goods have the attributes called non-rivalry and non-excludability. The attribute of non-rivalry means that there would be no marginal cost when one resource is used by one more person. And non-excludability demonstrates that many people could use the public goods in the same time. Generally, the public goods always match the private goods which are operated by private sector or individuals. Meanwhile, the merit goods which could be supplied by private sector have a strong relationship with the private goods. However, the merit goods are always intervened by government to some extent through the intervention of the price and supply, to increase the social welfare (Gayle McPherson, 2006). The demerit goods are the corresponding side of merit goods. This essay will firstly introduce the main topic. The following section will demonstrate the public goods and merit goods in the UK. And then an analysis about these two kinds of goods will be processed. Finally, a conclusion will be given.

2. 0 Public Goods and Merit Goods in the UK

The main topic of this essay mainly discuss the fact that whether the welfare of consumers is increasing or not through the analysis of the demand and supply. The welfare estimated here is showed by the consumer surplus, described in the figures through the demand and supply curve. Since there are differences between the public goods and merit goods, it is necessary to discuss the different demand and supply condition of these two kinds of goods.

2. 1 Public Goods

In the UK, the public goods, such as defense and justice, are controlled and operated by government. One of the reason why public goods are owned by government is mainly the huge cost which the private sector or individual cannot afford. Another reason may be the difficulty in evaluating the public goods (Felix Schläpfer, 2006). The real value of the public goods cannot be identified through the market price. Owing to the two attribute of the public goods, it is not suitable for the private sector to operate, for private always aims to realize the optimal profit. The failure of the railway system privatization can demonstrate the fact. In the past ten years, the public subsidy has been increased three times while the new electric train decreased to the lowest level of the Europe. Consequently, the railway system had to return to be commanded by the government. And the network and the training of the employees could be supplied (Mark Casson, 2004). In the recent years, the budget of the National Health Service has been increased to a large scale, demonstrating that the welfare of the people has been enhanced (Martine Rutten & Geoffrey Reed, 2009).

However, the scope of the public goods is limited while the merit goods become more and more important for both the society and the individuals. From the statistics, the consumption of public good has been decreased from 1976 to 1995, on the average of 34%, which can be showed in the table 1 (Riccardo Fiorito & Tryphon Kollintzas, 2004).

2. 2 Merit Goods

W. Ver Eecke (2003) analyzed the conception of the merit good, based on the economic distinguish by Adam Smith and the introduction of merit good
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by Musgrave. According to the analysis, the merit good could be used to analyze the particular economic practices. And Stefan Mann (2003) defined the merit good as the commodity to which the government could intervene the personal preference, based on the case of the organic food in Germany. As is known to all, the merit goods can be supplied by the private sector or individuals, such as the education, health, house, museum, and the forth. Although the public goods and the merit goods have the complementary relationship, the importance of the merit goods can be obviously seen. As the statistics showed in table 1, the consumption the government in merit goods increased year by year from 1976 to 1995. And the education and the health have taken a large percentage (Riccardo Fiorito & Tryphon Kollintzas, 2004). With the development of the society, the housing expenditure has become more and more important in the government consumption structure. However, the intervention would cause problems even if it increased the welfare of the consumers some time. This problem will be discussed in the third section. Even the research and development of the industrial productivity could be seen as the merit good to some extent under the intervention of the government (Dolores Añón Higón, 2007).

2.3 Importance to Identify the Public Goods and Merit Goods

The importance of identifying the public goods and merit goods can be interpreted as the service for the policy decision. The government should identify that which kind of service can be seen as a public good or merit good. And then the corresponding measures can be properly arranged.

Table 1: The Government Consumption % Composition

Year

Public Goods

Merit Goods

Total

Education

Health

1976-1980

34.7

55.4

22.5

21.5

1981-1985

35.7

54.9

21.0

22.1

1986-1990

34. 5

56. 1

20. 9

22. 8

1991-1995

32. 3

59. 6

20. 5

25. 6

Source: Riccardo Fiorito & Tryphon Kollintzas, " Public Goods, Merit Goods, and the Relation between Private and Government Consumption", 2004.

3. 0 The Analysis Based on the Examples

The public goods should be provided by the government while the merit goods could be supplied by the private sector. In the UK, the public goods are supplied by the government implying that the consumers could share the service without paying the cost or price. In this sector, the defense will be selected to show the condition of demand and supply. As an important part, the supply and price of merit goods could be intervened by the government so that the condition of the demand and supply would be different.

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3. 1 The Public Goods Analysis Based on the Example of Defense

As is known, the defense is the fundamental public good provided by the government. The demand for defense would be different from time to time.

The elasticity of the demand for defense is approaching to zero, implying that the demand curve is steep. And the supply of the defense is fixed in short-term, while it will change in a long time. Consequently, the supply curve can be showed steeply too. As Figure 1 shows, D_1 , S_1 , P_1 , Q_1 , represents the initial demand, supply, price and quantity, respectively.

Supposing the environment changes, such as the Iraq war, the supply of the defense increased, from Q_1 to Q_2 , while the supply curve shifted from S_1 to S_2 . The evidence could be gained from the increased weapon industries and other related events. If people think that the defense should be enhanced, they would increase the tax vulnerably. Here, the tax can be described as $P_2 - P_1$. Meanwhile, the demand curve would be shifted from D_1 to D_2 .

However, the shifting range of the demand and supply curve is different.

Generally, the demand curve would be shifted in a smaller range, for the consumer surplus would be declined owing to the increasing price (David Parker & Keith Hartley, 2003). In other words, the condition of welfare would be deteriorated.

3. 2 The Merit Goods Analysis Based on the Example of Housing

With the development of the society, some public goods have become the merit goods. Even the public goods are monopolized by government and the merit goods are flowed in an imperfect market. On condition that there are particular factors, the imperfect competition would play a positive role (Ben <https://assignbuster.com/public-goods-and-merit-goods-economics-essay/>

Lockwood, 2003). Here the analysis will choose the example of the housing in the UK to demonstrate the condition of demand and supply. Through the monetary policy, the house prices have fallen by 0.75%. Supposing the demand of the housing is fixed for a long time, for the growth of the population is constant. As Figure 2 shows, owing to the low interest rate, the housing market has been expanding with the sufficient money (J. Stewart, 2005; Adam Elbourne, 2008). And the supply of the housing has increased from Q1 to Q2, as the supply curve shifting from S1 to S2. Meanwhile, the price was decreased from P1 to P2.

4.0 Conclusion

In conclusion, the public goods and the merit goods are influenced by government. The public goods are entirely supplied by government, while the merit goods, intervened by government. Owing to the particular attributes, the public goods could not be privatized. The merit goods could not be totally supplied by the private sector. Through the analysis of the demand and supply of these two kinds of goods, the consumer surplus or welfare could be watched. Moreover, it would provide information such as the decision making. As a result, the importance of identifying the concrete kinds of goods should be paid particular attention.

5.0 Recommendations

When the supply of public goods is increasing, will the welfare of the consumers certainly increase? If it happened, how much or how many will it bring? For the merit goods, how to choose the corresponding measures to copy with the problems for the government? Maybe these questions need to be further explored.