

Macroeconomics Activity: What Should the Role of Government Be in Providing Goods and Services?

The following macroeconomics activity is taken from the Instructor's Manual to Accompany "Teaching Tools for Microeconomics from John Stossel -- College edition" by James Gwartney, John Morton, Mark Schug, and Joseph Calhoun. The accompanying Stossel DVDs may be purchased at: AbcNewstore.com

Common Sense Economics Part III: Elements 1 and 2

Key Economic Words and Concepts: Free-Rider problem, Private Spending, Public Goods and Services

Distribute the following handout to your class. Ask the students to read the information which follows and then complete the chart.

The Role of Government in Producing Goods and Services

Almost all of the things we consume are produced by the private sector. Clothing, houses, apartments, books, cars, tools, airplanes, medicine--nearly everything is produced by people in private business. But government produces some goods and services.

Why does government produce some things and not others? Most of the time, when individuals purchase something, they receive the benefits. But some goods and services are different. It is these differences that may result in some goods and services being produced by government. Here are three questions to consider when deciding whether a good or service should be produced by government or by the private sector.

1. Does the good or service convey benefits to both payers and nonpayers? When individuals can obtain goods and services without paying for them, this is called a "free-rider" problem.
2. Is it impossible to exclude nonpayers from receiving the benefits?
3. Does the good or service allow for shared consumption or will one person's consumption of a good or service reduce its usefulness to others?

On the table below, identify and explain whether the goods and services should be provided by government or by the private sector.

Student name: _____

Instructions: Identify and explain whether each of the goods and services below should be provided by the government or private sector?

Good or Service	Private? Public?	Why? Can nonpayers be excluded? Does consumption by one reduce usefulness for another?
A spring-break Caribbean cruise		
Police protection		
Flood control		
i-Pods		
Armed forces		
Apartments		

Answer Key		
Good or Service	Private? Public?	Why? Can nonpayers be excluded? Does consumption by one reduce usefulness for another?
A spring-break Caribbean cruise	(Private)	(It is easy to exclude nonpayers. If spring-breakers could obtain cruises whether they paid or not, there would be no incentive for business to produce them.)
Police protection	(Public)	(When police patrol a neighborhood, all the neighbors benefit. It is difficult to exclude nonpayers. Consumption by one neighbor does not diminish consumption by another.)
Flood control	(Public)	(It is difficult to exclude nonpayers from benefiting. Consumption by one household does not diminish consumption by another.)
i-Pods	(Private)	(It is easy to exclude nonpayers. If consumers could use i-Pods whether they paid or not, there would be no incentive for business to produce them.)
Armed forces	(Public)	(It is difficult to exclude nonpayers. Consumption by one citizen does not diminish consumption by another.)
Apartments	(Private)	(It is easy to exclude nonpayers. If renters could obtain apartments whether they paid rent or not, there would be no incentive for business to produce them.)