Efficient property rights

- **Transferability** -- owners can fully transfer the asset and all the associated benefits or costs to others
- **Enforceability** -- owner’s rights are secure
- **Exclusivity** – all benefits and costs accrue only to the owners of an asset.

Private goods

- **Exclusive**
  (I can keep you away from my cereal)
- **Rival**
  (If I eat it, you don’t get any benefits)

What is a Public Good (or bad)

- A good is **public** when the benefits (or costs) that flow from it fall on everyone and these benefits (or costs) do not change no matter how many people are gaining (or suffering) from the it.
- That is, the benefits (or costs) that are generated by an asset are **nonexclusive** and **nonrival**.

National Defense

City Parks
Net benefits (total surplus) to AI and the supplier

$\Delta\text{Net benefits to Betty (she doesn't have to pay anything)}$

Since she'd have to pay the MC to increase the supply, she isn't willing to pay to provide any more -- she free rides

$\Delta\text{Total Social Benefits}$

Net Social Benefits

Dead weight loss due to free rider problem
Do you get it?

Draw a graph showing the welfare cost and optimal quantity if Carol also lived on the island and her MWTP curve were the same as Al and Betty's curves.