End-of-chapter Questions

Chapter 8: Nonexclusive Goods

1. The pareto optimal condition for a private good is that MRS = MRT (with respect to a reference good whose price and marginal cost = 1). Is this the pareto optimal condition for a nonexclusive good such as defense? What is the pareto optimal condition for a nonexclusive good, and why?
2. a. For a nonexclusive good, how is the market demand curve derived from the individual demand curves? Why?
   b. If the government has to select the quantity of a nonexclusive good such as defense, why do the individual demand curves matter to the government's decision?
3. a. What are Lindahl prices for nonexclusive goods?
   b. What are their desirable properties?
   c. Why are Lindahl prices difficult to establish?
4. According to mainstream public sector theory, how should the government finance defense expenditures? Explain your answer.
5. What is the benefits-received principle of taxation and what role does it have in mainstream public sector theory?
6. a. Why are Lindahl prices considered to be a natural market interpretation of the benefits-received principle of taxation?
   b. Even if people accept market prices, are they likely to accept Lindahl prices as a way of paying for defense? Explain.
7. What is the mechanism design problem in general, and what specific issue is it trying to address in the context of nonexclusive goods such as defense?
8. How do Clarke taxes solve the mechanism design problem for nonexclusive goods such as defense?
9. In the standard public goods experiment, everyone benefits the most if all the subjects use their tokens to purchase only the nonexclusive (public) good each round. Why is this? Even so, each person has an incentive to purchase only the private good each round. Why is this?