

Marketable Public Good

- Excludable, not rival
 - TV, music

- Market can provide
 - Efficiently?

Externalities

- Definition
 - when the production or consumption of one party affects another's
- Externalities can be positive:

- Or negative:

Coase Theorem

	Factory profit	Fisherman profit	Total profit
No filter, no treatment	500	100	600
Filter, no treatment	300	500	800
No filter, treatment	500	200	700
Filter, treatment	300	300	600

- Suppose factory has right to dump
 - Initially, no filter, no treatment
 - Acting alone, fisherman will do treatment

- What if they coordinate?
 - Fisherman could gain 300 – and factory would lose only 100 – if they chose filter, treatment
- When can they arrive at this decision privately?
 - When right – here right to water – is assigned, parties can bargain to efficient solution
- **Further, initial assignment of rights does not matter**

Limits of Coase Theorem

- If there are transaction costs, or impediments to bargaining, private actors will not achieve socially efficient results.
- Then initial assignment of rights matters
- If rights cannot be assigned, taxes might be best
 - As earlier in session
- Illustration: liability rules about swimming pools
 - which rule should we choose: **owner** liable for injuries, or **victims** liable for injuries
 - Can they bargain? Does assignment matter?