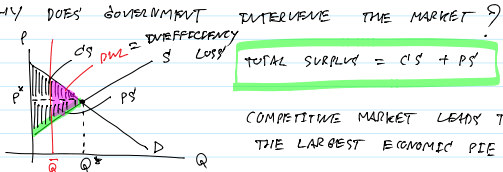


PUBLIC ECONOMICS IS THE STUDY OF THE GOVERNMENT IN THE ECONOMY BY USING BOTH POSITIVE AND NORMATIVE APPROACHES.

WHAT DOES GOVERNMENT DO? WHAT DOES GOVERNMENT SHOULD DO?

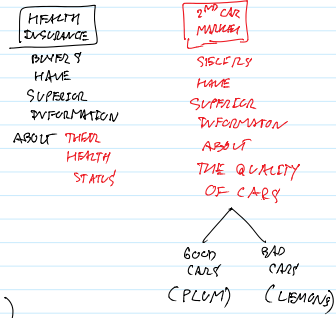
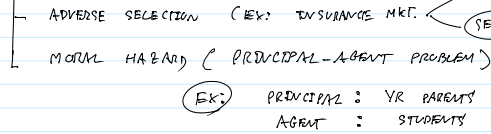
- MOST OF ISSUES DISCUSSED IN THIS COURSE ARE MICRO-BASED.
- WHEN WE TALK ABOUT "PUBLIC AUTHORITY", WE THINK OF STATE, REGIONAL, LOCAL GOVERNMENT, COUNCIL, CITY HALL, ETC.



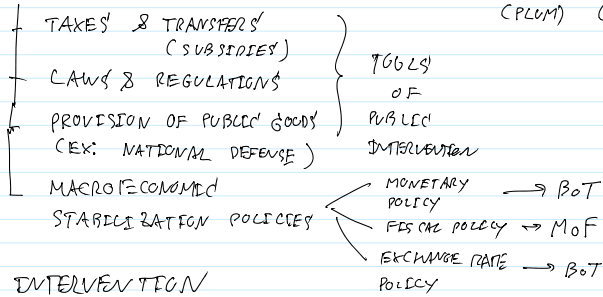
COMPETITIVE MARKET LEADS TO THE LARGEST ECONOMIC PIE

HOWEVER, MARKET SOMETIMES FAILS TO GIVE US A DESIRABLE OUTCOME B/C

- MONOPOLY → P IS TOO HIGH & Q IS TOO LOW.
- EXTERNALITIES → PRIVATE COST VS PRIVATE BENEFIT
- PUBLIC GOODS " EXTERNAL COST OR DAMAGE COST"
- ASYMMETRIC INFORMATION

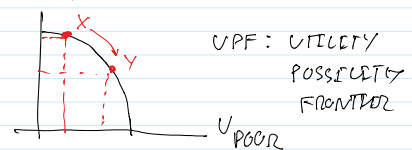
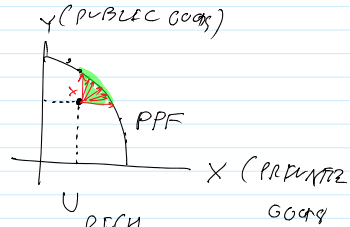


SO, THESE SOURCES OF MARKET FAILURE PROVIDE "JUSTIFICATION" FOR PUBLIC INTERVENTION.



Q: WHEN IS GOVT. INTERVENTION NECESSARY IN A MARKET ECONOMY?

- WHEN WE ARE INSIDE THE FRONTIER, GOVT. MAY IMPROVE EFFICIENCY
- WHEN WE ARE NOT SATISFIED WITH THE LOCATION ON FRONTIER, GOVT. MAY IMPROVE DISTRIBUTIONAL OUTCOMES



- WE NEED GOVT. INTERVENTION TO "ENSURE" THE DEVELOPMENT OF "NON-VIOLENT" AND MUTUALLY BENEFICIAL TRANSACTIONS AMONG MEMBERS OF SOCIETY



IN OTHER WORDS, TO AVOID "WAR OF ALL AGAINST ALL"

AND ABSENCE OF ANY LAW (HOBBES, 1651)

A BASIC MODEL

IMAGINE A FOREST W/O ANY STATE NOR RULE.
(OF COURSE, NO ESTABLISHMENT OF PROPERTY RIGHT)

2 PLAYERS : TITLE & POOM

TITLE GATHERS FRUITS 
POOM GATHERS FISHES 

BOTH HAVE "CONVEX PREFERENCES" : BOTH PREFER A MIXTURE
OF GOODY FOR
THEIR MEALS,

SUPPOSE THEY MEET

TWO POSSIBLE KINDS OF INTERACTION MAY ARISE :

- BRUTAL STEALING.
- PEACEFUL DEALING
- IF BOTH CHOOSE TO STEAL, THEY END UP W/ FIGHTING
- IF ONE STEALS AND THE OTHER DOES NOT, THE STEALER WILL GET WHAT HE WANTS FOR FREE
- IF BOTH MAKE A DEAL (EXCHANGE), THEY WOULD GET A MUTUALLY BENEFICIAL AGREEMENT THAT IS, HOWEVER WORSE, FOR EACH GUY THAN THE SITUATION HE COULD STEAL FOR FREE!