

MICRO ECONOMICS

TYPES OF GOODS

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B.A PART 1

In economics, goods can be categorized in many different ways. One of the most common distinctions is based on two characteristics: excludability and rivalrousness. That means we categorize goods depending on whether people can be prevented from consuming them (excludability) and whether individuals can consume them without affecting their availability to other individuals (rivalrousness).

Based on those two criteria, we can classify all physical products into four different types of goods: private goods, public goods, common resources, and club goods. We will look at each of them in more detail below.

	Excludable	Non-excludable
Rival	Private Goods <i>e.g. ice cream, cheese, houses, cars</i>	Common Resources <i>e.g. fresh water, fish, timber, pasture</i>
Non-rival	Club Goods <i>e.g. cable television, cinemas, wifi, tollroads</i>	Public Goods <i>e.g. fresh air, knowledge, national defense</i>

Quickonomics

PRIVATE GOODS

Private Goods are products that are excludable and rival. They have to be purchased before they can be consumed. Thus, anyone who cannot afford private goods is excluded from their consumption. Likewise, the consumption

of private goods by an individual prevents other individuals from consuming the same goods. Therefore, private goods are also considered rival goods. Examples of private goods include ice cream, cheese, houses, cars, etc.

Public Goods

Public goods describe products that are non-excludable and non-rival. That means, no one can be prevented from consuming them, and they can be used by individuals without reducing their availability to other individuals. Examples of public goods include fresh air, knowledge, national defense, street lighting, etc.

Common Resources

Common resources are defined as products or resources that are non-excludable but rival. That means they can be used by virtually anyone. However, if one individual consumes common resources, their availability to other individuals is reduced. The combination of those two characteristics often results in an overuse of common resources (see also the tragedy of the commons). Examples of common resources include freshwater, fish, timber, pasture, etc.

Club Goods

Club goods are products that are excludable but non-rival. Thus, individuals can be prevented from consuming them, but their consumption does not reduce their availability to other individuals (at least until a point of overuse or congestion is reached). Club goods are sometimes also referred to as artificially scarce resources. They are often provided by natural monopolies. Examples of club goods include cable television, cinemas, wireless internet, toll roads, etc.

In a Nutshell

There are four different types of goods in economics which can be classified based on excludability and rivalrousness: private goods, public goods, common resources, and club goods. Private Goods are products that are

excludable and rival. Public goods describe products that are non-excludable and non-rival. Common resources are defined as products or resources that are non-excludable but rival. And last but not least, club goods are products that are excludable but non-rival.