



Chapter 3

Government's Role in US Economy



Govt's Role

➤ Provide public goods

- People can't be excluded from using them
- Using the good doesn't use it up
- Ex: street lights, national defense
- PG are paid for through taxes



Govt's Role

- Prevent free riders
- Free riders: if govt provides the good or service, this problem is eliminated
 - Ex: fireworks, police protection, fire protection



Correct externalities



- Negative externality:
- Ex: pollution, second hand smoke.
 - We discourage these by taxing



Correct externalities

➤ Positive Externality:

- Ex: flu shots, education
- We encourage these actions through subsidies (make them cheaper)



Public Transfer Payments

- Ex: social security, Medicare, unemployment, food stamps, veteran's benefits.
- Taxes are collected from larger group, benefits given by qualifying



End of Unit, Chapters 1-3.

