

IUG example

Situation	Structure	Performance
Land – between farmer A and farmer B. or Air between industry and breather	1. Farmer A is factor owner, may trade.	1. A sells to B whose bid > A's reservation price.
IUG	2. Farmer B is factor owner (a beneficiary of regulation).	2 B keeps and A goes hungry. (A has lung disease).

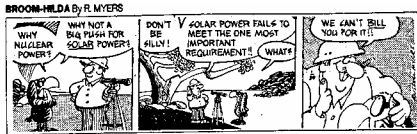
Did you have breakfast?

- Did you create an externality?
Are you a thief?
 - Did you compensate others for the externality?
Why or not?
- Food is IUG
- To own is to be able to create externalities for others & to listen to bids.



Do you watch Channel 23?

- Do you contribute?
- Are you a free rider?
- Are you a thief?
- Why or not?
- Broadcast TV is HEC good.
- To have the right to volunteer payment is to create externalities for others.



Situation Structure Performance

Good = wolves	Factor ownership:	
IUG Between environmentalists and ranchers.	1. Rancher owns, market allowed. 2. Environmentalists own, market allowed. 3. Ranchers own, regulation.	1. Wolves are shot Owners listen for bids 2. Owner listens for bids Cows costly to produce 3. Wolves shot by government

Situation Structure Performance

Good = Wolves	Factor ownership: Ranchers own	
Among environmentalists who enjoy wolves.	1. Market (No informal rules to cooperate)	1. Free riders Frustrated wanabe riders. Wolves killed.
HEC	2. Informal rules, Solidarity Status – Grant	2. Few free riders. Wolves bought and saved.
	3. Administrative Tax	3. Unwilling riders. No free riders Wolves bought and saved

Ancient Indian Fable

- A king fancied a pond of milk. He ordered each of his subjects to bring a can of milk for the pond. Each apparently did so, yet in the morning the pond was filled with clear water.
- What happened?

Review Questions

- What's the difference between a free rider and a thief?
- Is "public good" (or private good) a useful analytic term?
- Market failure? Collective failure? and other "vulgar neoclassicisms" make no sense if you see the "nexus of law and economics."

Bites

- No fence? Then it's HEC.
- Unhorse free riders and create unwilling riders.
- Avoid unwilling riders and create frustrated wanabees.
- Threat, guilt & hugs control free riders.
 - Commitment v. sympathy.