

- Since public goods are free of charge, individuals do not purchase public goods; their demand is not revealed by their actions. GVT must guess how much people are willing to pay. Through tax, individuals have an incentive to conceal their willingness to pay.
 - Self interested citizens → exaggerate their willingness to pay
- **Excludability and the cost of pricing:**
 - The public/private-good differentiation is seldom clear-cut since many good are somewhat private in nature, with the degree of publicness in large part determined by available technology.
 - **P. ROMER** → new categorization of goods depending on their degree of publicness / privateness by:
 - their degree of rivalry in consumption
 - their degree of excludability in pricing
- **Informational & Moral hazard Problems:**
 - The **perfectly competitive model** → assumes that individuals have perfect information about what they are buying ≠ Real-world problems often involve deception, cheating, inaccurate information.
 - **Adverse selection problem** → a problem that occurs when buyers and sellers have different amounts of information about the good for sale and use that information to the detriment of other.
 - **Moral Hazard problem** → a problem that arises when people don't have to bear the negative consequences of their actions.
- **Signaling and screening**
 - **Signaling** → an action taken by an informed party that reveals information to an uninformed party that offers the false signal that caused the adverse selection problem in the first place.
 - **Screening** → an action taken by the uninformed party that includes the informed party to reveal the information.
- Policies to deal with informational problems:
 - ➔ The Federal Trade Commission
 - ➔ The Consumer Product Safety Commission
 - ➔ The Occupational Safety and Health Administration
 - ➔ The Food and Drug Administration
 - ➔ the state licensing boards
- The commission and their regulations introduce restrictions that can slow down the economic process and prevent trades that people want to make.
- **MKT in information** → Information is valuable and is an economic product in its own right.