

Cambridge AS & A Level · Economics 9708 · Notes

Classification of goods and services AS

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What you need to know

By the end of this topic you should be able to:

1. **Explain what free goods and private (economic) goods are:** a free good is not scarce and has no opportunity cost; a private good uses scarce resources and is rival and excludable.
2. **Explain what public goods are:** goods that are non-rival and non-excludable, and why a market will not supply them.
3. **Explain what merit goods are:** goods that are better for people than they realise, so they are **under-consumed** in a free market because of **imperfect information**.
4. **Explain what demerit goods are:** goods that are more harmful than people realise, so they are **over-consumed** in a free market because of **imperfect information**.

Government policies that change the consumption of merit and demerit goods (taxes, subsidies, price controls, information, regulation) are covered in the topic on government intervention, but Paper 2 essays often pair them with this topic, so this note shows how the two fit.

Understand it

Why classify goods at all?

The price mechanism works well for most goods: firms make what people will pay for, and people buy what they value. For some goods it doesn't. Sorting goods into types tells you **which ones a market will supply in the right amount, which it will supply too little or too much of, and which it will not supply at all**. That is why this topic keeps turning up in questions about market failure and the role of government.

Four ideas do the sorting:

- **Is it scarce?** Does producing it use scarce factors of production, so that it has an opportunity cost?
- **Is it rival?** Does one person's consumption reduce the amount available to others?
- **Is it excludable?** Can people who do not pay be stopped from consuming it?
- **Do people judge its benefits and costs correctly?** Or do they have imperfect information?

Free goods

A **free good** is one that is **not scarce**: there is enough of it to satisfy everyone who wants it, even at a price of zero. No factors of production are needed to make it, so it has **no opportunity cost**. Examples: the air you breathe in the countryside, sunlight, the wind that pushes a sailing boat, sea water for a swim.

Because there is no scarcity, nobody has to decide how to share it out. **Supply is at least equal to demand at a price of zero**, so no market is needed and no price is charged.

"Free" in economics does **not** mean "free of charge". A good can cost the user nothing and still be an economic good:

- a gift from a friend cost the friend money, so scarce resources were used;
- a service given free by a government or a charity is paid for by taxpayers or donors, and the resources could have made something else, so there is an opportunity cost.

Whether a good is free can also change. Air is a free good in the countryside, but **clean** air in a heavily polluted city is scarce: people pay for filters, and cleaning it uses resources. When a good becomes scarce it becomes an economic good.

Private goods (economic goods)

A **private good** (also called an **economic good**) is one that uses scarce resources to produce, so it has an **opportunity cost** and usually a **price**. Most goods are private goods: food, clothes, phones, haircuts. They have two features:

- **Rival (rivalrous)**: if one person consumes it, there is less for everyone else. The sandwich I eat cannot be eaten by you; the seat I take on a flight is not available to you.
- **Excludable**: the seller can stop anyone who does not pay from consuming it. No ticket, no seat.

These two features are why markets supply private goods well. Excludability means the firm **can charge** everyone who benefits, so it can make a profit. Rivalry means each unit consumed has to be produced, so a price is a sensible way to **ration** the limited supply.

Who provides a good does **not** decide its type. A meal provided free by the state is still rival (one person eats it) and excludable (it could be handed only to those with a ticket), so it is a private good.

Public goods

A **public good** has the two opposite features. Define **each one separately**:

- **Non-rival**: one person's consumption does **not** reduce the amount available to others. When a street light is on, one extra person walking under it does not make the street darker for anyone else. The extra cost of one more user is zero.

- **Non-excludable:** once the good is provided, it is **impossible (or far too costly) to stop people who have not paid** from benefiting. A country's defence protects everyone who lives there, whether or not they paid tax.

Mark schemes sometimes add **non-rejectable**: people cannot choose not to receive it (you are defended whether you want it or not).

Standard examples: **national defence, street lighting, a lighthouse, a tsunami warning siren along a coast**. Examiners do **not** accept roads, schools, hospitals or "anything the government provides" as examples of public goods, because they are rival and excludable.

Why a market will not supply a public good: the free-rider problem. Because the good is non-excludable, each person can enjoy it without paying, so each has a reason to wait for others to pay. This is **free riding**. A firm cannot collect payment from the people who benefit, so it cannot make a profit, so no firm will supply the good, even though people value it. The market is **missing**: the good is not provided at all. That is why public goods are provided by governments, paid for out of taxes, in mixed economies.

non-excludable $\Rightarrow$ free riders $\Rightarrow$ no revenue or profit $\Rightarrow$ no market supply

Quasi-public goods. Many goods are only partly non-rival or non-excludable. A road is non-rival when it is empty, but when it is congested each extra car slows everyone else, so it becomes rival; and a toll or an electronic charge can make it excludable. Goods like this are called **quasi-public goods**. A good that is public today can become private if a way of excluding non-payers appears (a gate, a subscription, new technology), because firms can then charge for it.

Merit goods

A **merit good** is one that is **more beneficial to the person who consumes it than that person realises**. Examples: education, healthcare check-ups, exercise classes, careers advice.

A merit good is a **private good**: it is rival and excludable, so a market **will** supply it. The problem is the **amount**. Because of **imperfect information** (people do not know, or underestimate, the full benefits, especially benefits that come years later), people's demand is lower than it would be if they were fully informed. So in a free market a merit good is **under-consumed** and **under-provided**.

Price makes it worse: a person on a low income may not be able to afford it at all, even though they would benefit greatly.

For example, suppose at a price of 20 dollars people buy 40 000 first-aid courses a year, but if they understood the full benefits they would buy 65 000. The market under-consumes by $65\,000 - 40\,000 = 25\,000$ courses a year.

Merit goods are provided by **both the private and the public sector**. Private firms sell them because they are rival and excludable and can make a profit; the government provides or subsidises them to raise consumption towards the amount people would choose if they were fully informed. Merit goods often also benefit other people (an educated worker helps the whole economy), but the syllabus definition here rests on **information failure**.

Demerit goods

A **demerit good** is one that is **more harmful to the person who consumes it than that person realises**.

Examples: cigarettes, alcohol, gambling, very sugary foods, recreational drugs.

Again it is a private good, and a market supplies it, but because of **imperfect information** (people underestimate the harm, particularly long-term harm or addiction) demand is higher than it would be if they were fully informed. So a demerit good is **over-consumed** and **over-provided**.

For example, if people buy 90 000 packets of a snack a week but would buy only 60 000 if they knew its full effect on their health, the market over-consumes by $90\,000 - 60\,000 = 30\,000$ packets a week.

Putting the types together

Type	Scarce (opportunity cost)?	Rival?	Excludable?	What a free market does
Free good	No	No shortage to compete for	Not needed	No market needed: enough for all at zero price
Private (economic) good	Yes	Yes	Yes	Supplies it at a price
Public good	Yes	No	No	Does not supply it (free riders)
Merit good (a private good)	Yes	Yes	Yes	Supplies too little: under- consumed through imperfect information
Demerit good (a private good)	Yes	Yes	Yes	Supplies too much: over- consumed through imperfect information

To classify any good, ask the four questions in order:

1. **Does it use scarce resources?** If not, it is a **free good**. If so, it is an economic good.
2. **Is it non-rival and non-excludable?** If both, it is a **public good**. If only partly, it is **quasi-public**.
3. **Otherwise it is a private good.** Then ask: **do people underestimate its benefits** (merit good) **or its harm** (demerit good)?

Two traps to cross out every time: **"free of charge"** does not make a good a free good, and **"provided by the government"** does not make it a public good.

Why it matters for the whole economy

A free market allocates resources efficiently only when there are no public goods, merit goods or demerit goods (and no other market failures). Each type gives the government a different job:

- **public goods:** provide them, paid for by taxation;
- **merit goods:** raise consumption, for example by direct provision free of charge, subsidies to producers or information campaigns;
- **demerit goods:** reduce consumption, for example by indirect taxes, minimum prices, bans or regulation, and information campaigns.

Each policy has limits: it costs money (with an opportunity cost for the government), it depends on how price-elastic demand is, and if people still lack information a lower or higher price may not change what they do.

Key facts and formulas

This topic has no formulas and no formula list in the exam. "Learn it" means you must remember it.

Fact	Status
Free good: not scarce, uses no factors of production, zero opportunity cost; supply meets demand at zero price	Learn it
Private (economic) good: uses scarce resources, rival and excludable	Learn it
Rival: one person's consumption reduces what is left for others	Learn it
Excludable: non-payers can be stopped from consuming it	Learn it
Public good: non-rival and non-excludable (and non-rejectable); not supplied by the market because of free riders	Learn it
Quasi-public good: partly rival and/or partly excludable, such as a road that can be congested or tolled	Learn it
Merit good: benefits greater than people realise, under-consumed through imperfect information	Learn it
Demerit good: harm greater than people realise, over-consumed through imperfect information	Learn it
Merit and demerit goods are private goods	Learn it
"Free of charge" is not a free good; "provided by the government" is not a public good	Learn it

How to do it

In the questions we have tagged for this topic (56 questions, 2021–2025: 33 multiple choice on Paper 1 and 23 data response or essay questions on Paper 2), we counted each part about this topic by the task it sets. 12 questions have parts of more than one type, so the counts add to 73.

Question type	Questions
Multiple choice: identify the type of good from a scenario	18
Essay part (a), 8 marks: explain and distinguish two types of good	9
Classify a named good and justify it (data response 2–4 marks, or essay 8–12 marks)	9
Essay part, 12 (or 8) marks: evaluate policy for merit or demerit goods	9
Essay part: explain whether a market economy will provide a type of good	7
Multiple choice: recall a definition or characteristic	6
Multiple choice: link characteristics to market provision	6
Written part: explain under- or over-consumption of merit and demerit goods	6
Multiple choice: the cause of under- or over-consumption	3

1. Multiple choice: identify the type of good from a scenario (18 questions)

1. **Ignore who pays and who provides.** Strip out "free of charge", "government", "council", "charity" and "not for profit": none of them decides the type.
2. **Ask the four questions** from "Understand it": scarce resources used? rival? excludable? are benefits or harm misjudged?
3. **Pick the option whose reason is right**, not just whose label is right: in "Yes, because..." options, the reason must be the economic one (scarce resources, rivalry, excludability).

Variations you will meet:

- **Pick the public good** from a list: only the one that is both non-rival and non-excludable (defence, street lighting, a lighthouse, a warning system). Roads, hospitals, schools, internet access and anything handed out to named people are not.
- **Is this free thing a free good?** Something given away still used scarce resources, so it is an **economic (private) good**. Only goods that are not scarce, like air in the countryside, are free goods.
- **Something given free by the state to named households** (food, milk, meals, treatment): rival and excludable, so a **private good**; the right option may simply be the one that names a private or normal good.
- **Sort activities** into economic goods and free goods: anything bought, rented or produced by someone is economic; enjoying nature that nobody has to produce is free.
- **Which good is rival?** The one that is used up when one person consumes it (a snack), not a broadcast or a light.

- **"Consumers do not use enough because they lack information"** names a merit good; "use too much" names a demerit good.

2. Essay part (a), 8 marks: explain and distinguish two types of good (9 questions)

The pairs asked are free and private, public and free, public and private, merit and demerit, and public and merit. Part (a) is **point-marked**: up to **3** marks for knowledge (AO1), **3** for analysis (AO2) and **2** for evaluation (AO3, one kept for a justified conclusion).

Answer plan, about one side:

1. **Define each type precisely** (AO1): free = not scarce, no factors of production, zero opportunity cost; private = rival **and** excludable; public = non-rival **and** non-excludable, **each explained in its own sentence**; merit and demerit = under- or over-consumed because of imperfect information.
2. **A correct example of each** (AO1): sunlight or air (free), clothing or food (private), defence or street lighting (public), education or healthcare (merit), cigarettes or alcohol (demerit). Never roads or schools as public goods.
3. **Analyse what follows from the features** (AO2), one developed chain for each type: free goods need no market because supply meets demand at zero price and there is no opportunity cost; private goods can be priced because non-payers are excluded and each unit is used up; public goods suffer free riding, so no firm can profit; merit goods are supplied but under-consumed.
4. **The "consider..." part** (AO3): the question usually ends with a twist; answer it with an "it depends on..." point (1) and a justified conclusion (1).

Variations you will meet:

- **"...consider the significance of the distinction"** between free and private goods: free goods raise no economic problem (no choice, no opportunity cost, no need for prices), while private goods must be allocated by some system; and goods can move between the two when they become scarce (clean air in a polluted city). Conclude that the distinction matters because only scarce goods need to be allocated.
- **"...consider whether markets will always provide enough of both"**: public goods are not provided at all; merit goods are provided, but too little.
- **Merit and demerit**: the same cause (imperfect information) with opposite results (under- and over-consumption); give a precise example of each (not just "food").

3. Classify a named good and justify it (9 questions)

1. **Test each characteristic separately** against the named good, and say **why** in the context: "it is rival because...", "it is excludable because...".
2. **Look for both sides**: many real goods are partly rival (crowding) or partly excludable (an entry fee, a fence, a ticket), so they are **quasi-public**, or are private goods that the state happens to provide.
3. **Check the free-good claim** the right way: free **to the user** is not the same as zero opportunity cost; someone (the taxpayer, the government) gave up the next best use of the resources.
4. **Conclude** with the type that fits best, and say which characteristic decides it.

Variations you will meet:

- **Data response, 2–4 marks** ("explain whether X is a private good or a public good"): the classification, then one reason for rivalry and one for excludability, applied to X. Keep rivalry and excludability apart; examiners report answers that call a good "excludable" when they mean one person's use leaves less for others (that is rivalry).
- **"Why might X be regarded as a demerit good?"** (2 marks): it is over-consumed (1) because consumers underestimate the harm it does them, such as long-term health damage (1).
- **An 8-mark version**: define both types (AO1), apply rivalry and excludability to the good and to the alternative (AO2), and judge "the extent to which" it fits, often "a quasi-public good", with a reason (AO3).
- **The 12-mark "public good or merit good?"** essay: side one, why someone might call it a public good (widely provided by the state, wide benefits to society); side two, why it fails the tests (rival: places and teachers' time are limited; excludable: fees can be charged) but fits the merit-good definition (under-consumed through imperfect information). Conclude that it is a merit good, because the characteristics, not the provider, decide.

4. Essay part, 12 (or 8) marks: evaluate policy for merit or demerit goods (9 questions)

"Assess whether a subsidy is the best way to increase the consumption of a merit good", "should the government always support merit goods", "is a minimum price the best way to reduce consumption of a demerit good". Part (b) is **levels-marked**: Table A up to **8** for knowledge and analysis (Level 3: 6–8, balanced and accurate; Level 2: 3–5; Level 1: 1–2) and Table B up to **4** for evaluation. A **one-sided answer gets no evaluation marks**.

Answer plan, about two sides:

1. **Define the good** in one sentence, **with its cause**: under- (or over-) consumed because of imperfect information.
2. **How the policy works**, as a chain: a subsidy lowers producers' costs → supply rises → the price falls → more is consumed; free provision removes the price barrier; information corrects the cause directly; a tax or minimum price raises the price → less is consumed.
3. **Its limits**, as chains: the cost to the government and the **opportunity cost** of that spending; **price elasticity of demand** (if demand is inelastic, a price change moves consumption little); if people still undervalue the good (or ignore the harm), a lower (or higher) price may not change what they do; time, travel or waiting costs; enforcement costs and illegal markets; private provision may be more efficient.
4. **At least one alternative policy**, with its own strength and weakness, when the question says "best".
5. **A justified conclusion** that answers the exact words ("best", "always", "to what extent"): which works best **for this good**, and what that depends on.

Variations you will meet:

- **An 8-mark version** asks only whether one policy (such as a subsidy) will always work: then assess **that policy alone**; comparing other policies earns nothing.

- **"Should governments always support merit goods?"** Side two includes government inefficiency, the budget cost, and the chance that private provision is enough.
- **A tax on demerit goods does not raise consumption of merit goods** unless the two are substitutes; examiners have marked this assumption as wrong.

5. Essay part: explain whether a market economy will provide a type of good (7 questions)

1. **Public goods:** non-excludable → free riders → firms cannot charge → no profit → **not provided** by the market (a missing market).
2. **Free goods:** no market needed; nobody charges, because supply meets demand at zero price.
3. **Private goods, including merit and demerit goods:** **provided**, because they are rival and excludable; but merit goods in too small and demerit goods in too large amounts.
4. **Evaluation** (for "can never be provided"): a market **could** supply a public good if it were made excludable (a charge, a subscription, new technology), if the government paid a firm to supply it, or if a firm or its owners supplied it for the public benefit; otherwise it is unlikely.

Variations you will meet:

- **Why merit goods come from both sectors:** private firms supply them because they can charge a price and make a profit; the state also supplies them because the market alone leaves them under-consumed through imperfect information, and to give access to people on low incomes.
- **"Should the government only provide public goods and leave merit goods to the private sector?"** The market provides no public goods, so the government must; for merit goods, side one is that private supply exists and may be more efficient, side two that it leaves under-consumption and unequal access.

6. Multiple choice: recall a definition or characteristic (6 questions)

1. **Match the exact definition:** free good = zero opportunity cost (uses no scarce resources); non-rival = one person's use does not reduce what others get; non-excludable = non-payers cannot be stopped.
2. **Don't mix up rival and excludable**, and don't confuse either with "unlimited supply" or with information failure (that describes merit goods).

Variations you will meet:

- **"Which statement is not correct?":** test each statement's reason; a statement that calls a public good rival is the wrong one.
- **A public good inside a positive or normative question:** the classification is only the setting; the answer is the statement with a value judgement ("should").

7. Multiple choice: link characteristics to market provision (6 questions)

1. **The market supplies goods that are rival and excludable.** Excludability lets firms charge; rivalry means each unit must be produced and rationed.

2. **Public goods are left out of free markets** and are produced in mixed economies by the state.
3. **A public good becomes private** when something makes it **excludable**, such as new technology; a change of owner (privatisation) or of price does not change its type.

Variations you will meet:

- **Charging for road use** only works if the road can be made **excludable**.
- **When does a free market allocate resources most efficiently?** When there are no public goods, no merit goods and no demerit goods to be dealt with.
- **Which good is least likely to be allocated by market forces?** The pure public good in the list.

8. Written part: explain under- or over-consumption of merit and demerit goods (6 questions)

1. **Define** each: a merit good is better for the consumer than they realise; a demerit good is worse (1 each).
2. **The mechanism:** imperfect information → merit good benefits underestimated → demand too low → **under-consumed**; demerit good harm underestimated → demand too high → **over-consumed** (develop each).
3. **A precise example of each** (education, healthcare; cigarettes, alcohol), not "food".
4. **Why intervention may be needed and why it may fail** (for "consider..."): a lower price may not change the behaviour of people who still undervalue the good; other costs such as time and travel remain; the government must pay for it.

Variations you will meet:

- **"Why does the government provide merit goods free of charge?"** It removes the price barrier, so consumption rises towards the fully informed level, welfare rises, and people on low incomes get access.
 - Some health services, such as vaccinations, protect other people as well as the person treated: they act partly like public goods (the protection is non-rival and hard to exclude others from), so the private sector would under-provide them, and free provision protects public health.
- **Is imperfect information more serious in a market economy than a mixed one?** In a market economy nobody corrects it; in a mixed economy the state can provide information, subsidise or tax, but it may have imperfect information too (government failure).
- **"State what is meant by a demerit good"** as the start of a longer part on taxes: one precise sentence (over-consumed because consumers underestimate its harm), then move on.

9. Multiple choice: the cause of under- or over-consumption (3 questions)

1. **The cause is imperfect information:** consumers do not fully understand the value (merit) or the harm (demerit).
2. **Cross out** options about surpluses, who supplies it, or whether it is productive.
3. **If a subsidy is in the table**, under-consumption is greatest where information failure is **high** and there is **no** subsidy to lower the price.

Worked examples

Example 1

A government installs sirens along its coastline that sound when a tsunami is detected, warning everyone within hearing distance.

Which type of good is the warning system?

- **A** a free good
- **B** a merit good
- **C** a private good
- **D** a public good

[1]

One more person hearing the siren does not make it quieter for anyone else, so it is non-rival, and nobody near the coast can be stopped from hearing it, so it is non-excludable. The answer is **D**. (1)

A is wrong because the sirens use scarce resources. B and C are private goods, which are rival and excludable.

Example 2

Many teenagers go to concerts where the music is loud enough to damage their hearing over time, and few of them wear ear protection.

Which statement best explains this?

- **A** Concerts are merit goods that are under-consumed because tickets are expensive.
- **B** Very loud concerts are demerit goods that are over-consumed because consumers underestimate the harm.
- **C** Concerts are public goods, so the organisers cannot exclude people who have not paid.
- **D** Concerts are free goods because the music can be heard by everyone nearby.

[1]

The harm (hearing damage later in life) is greater than the teenagers realise, so because of imperfect information they consume more very loud music than they would if fully informed. The answer is **B**. (1)

C and D fail because a concert sells tickets (excludable) and uses scarce resources.

Example 3

With the help of examples, explain the difference between a merit good and a public good, and consider whether a public library that lends books free of charge should be classified as a public good. [8]

A public good is **non-rival**: one person's consumption does not reduce the amount available to others, as when an extra household is protected by national defence (AO1, 1). It is also **non-excludable**: once it is provided, people who have not paid cannot be stopped from benefiting, as with street lighting (AO1, 1). A merit good, such as education, is a private good that is more beneficial than consumers realise, so it is under-consumed because of imperfect information (AO1, 1).

Because a public good is non-excludable, people can free ride, so a firm cannot collect payment and make a profit, which means a free market does not supply it at all (AO2, 1). A merit good is rival and excludable, so firms can charge for it and a market will supply it (AO2, 1); but because consumers underestimate its benefits, demand is too low and it is under-consumed and under-provided (AO2, 1).

A library looks like a public good because it is free to use and paid for by the government. But a book borrowed by one person cannot be borrowed by another at the same time, and seats fill up, so it is rival; and the library can require a membership card or charge a fee, so it is excludable (AO3, 1).

So the library is not a public good: it is a merit good provided by the state free of charge, because reading is more valuable to people than many realise; being free and government-run does not change its characteristics (AO3, 1, justified conclusion).

Total: $3 + 3 + 2 = 8$.

Example 4

Assess whether a government should provide swimming lessons free of charge to all children rather than leave them to be sold by private firms. [12]

Introduction. Swimming lessons are a **merit good**: they are rival and excludable, so private firms can sell them, but many parents underestimate the benefits (safety in water, health, confidence), so because of imperfect information they are under-consumed in a free market.

The case for free provision. Making lessons free removes the price barrier, so families on low incomes, who would buy few lessons at the market price, can now take them; consumption rises towards the level people would choose if they were fully informed. Children who can swim are less likely to drown, and healthier children may need less healthcare later, so the benefits to them and to society are large. If lessons are offered through schools, almost every child takes part, which also tackles the information problem, because parents do not have to decide to buy them.

The case for leaving them to private firms. Free provision has to be paid for from taxes, and the money has an **opportunity cost**: it could have paid for teachers or medicines. Private swimming schools compete for customers, so they have an incentive to keep costs low and quality high, which a state provider may lack. And a zero price may not solve the real problem: if parents still undervalue the lessons, or face travel costs and time off work, some children will still not attend. The government could instead **subsidise** private lessons, which costs less per lesson and keeps competition, or run an **information campaign**, which tackles the cause of under-consumption directly.

(Table A: developed chains on both sides, focused on the merit-good problem: Level 3, 8 marks.)

Evaluation and conclusion. Whether free provision is best depends on **how much** the lessons are under-consumed, on **why** (price or lack of information), and on how efficiently the state can deliver them. Where under-consumption is mainly among low-income families, free lessons through schools are likely to be the most effective choice, because they remove both the price and the information barriers at once. Where most families already pay for lessons, a targeted subsidy for low-income families plus information would raise consumption at a lower opportunity cost. So the government should provide lessons free in schools where take-up is low, rather than for every child everywhere.

(Table B: a balanced, justified judgement that answers the question and says what it depends on: Level 2, 4 marks.)

Total: $8 + 4 = 12$.

Common mistakes

- **Calling anything the government provides a public good.** Examiners report this every year. Who provides a good does not decide its type; only rivalry and excludability do. A meal or a lesson provided by the state is still a private good.
- **Blending rivalry and excludability.** "Non-rival and non-excludable" written as one phrase, with no explanation of each, earns nothing for knowledge. Write "it is non-rival because..." and "it is non-excludable because..." as two separate points, and don't call a good "excludable" because one person's use leaves less for others (that is rivalry).
- **Giving roads, schools or hospitals as examples of public goods.** They are rival (they get crowded) and excludable (they can charge), so examiners reject them. Use defence, street lighting or a lighthouse.
- **Thinking "free of charge" means "free good".** A free good has zero opportunity cost; a service given free still uses scarce resources, paid for by someone.
- **Describing merit goods only as "good for you".** Without under-consumption and its cause, **imperfect information**, there is no economic analysis, and examiners give low marks.
- **Imprecise examples**, such as "food" as a merit good. Choose goods that clearly fit: education, healthcare, cigarettes, alcohol.
- **Writing about demerit goods when the question asks only about merit goods** (or the reverse). Examiners note answers that wasted time this way.
- **Assessing alternative policies when the question asks about one.** If the question asks whether a subsidy will always work, assess the subsidy; alternatives earn marks only when the question says "best".
- **Assuming a tax on demerit goods raises consumption of merit goods.** That is true only if they are substitutes, which they usually are not.
- **One-sided essays.** A one-sided answer to a 12-mark part cannot get any evaluation marks.

How to get the marks

- **Command words.** *Explain:* reasons linked by "because", "so", "which means"; no judgement needed. *Consider, assess, discuss, to what extent:* explain both sides, then judge.

- **Part (a), 8 marks, is point-marked 3 + 3 + 2.** AO1: a precise definition of **each** type (each characteristic separately) and a correct example of each. AO2: what follows from the characteristics (free riding, no profit, missing market; supplied but under- or over-consumed). AO3: one "it depends on..." point and one justified conclusion.
- **Part (b), 12 marks, is levels-marked 8 + 4.** Level 3 needs developed, accurate chains on both sides, focused on the good in the question; the top evaluation level needs a judgement that answers the exact words ("best", "always") and says why. One-sided answers get no evaluation marks.
- **Data response parts** are point-marked: a classification plus one reason for each characteristic, applied to the case.
- **Always give the cause** when you name a merit or demerit good: imperfect information, leading to under- or over-consumption.
- **Apply the tests to the good in the question**, not in general. A beach, a road or a museum can be partly rival or partly excludable; saying so, and concluding "quasi-public" with a reason, earns the evaluation marks.
- **Multiple choice:** read "not", "must" and "most likely" first; then check the **reason** in each option, not only the label.

Quick check

1. Which of these is non-excludable?
 - **A** a football match shown only on a subscription television channel
 - **B** a fireworks display in the sky that can be seen from anywhere in a city
 - **C** a haircut at a barber's shop
 - **D** a seat on a long-distance train
2. Classify each as a free good, a private good, a public good, a merit good or a demerit good, with a one-line reason: (a) a pair of trainers; (b) the wind that drives a sailing boat; (c) a programme that sprays a whole town to kill mosquitoes; (d) cigarettes; (e) annual eye tests.
3. A town council pays a firm to clear snow from every street in the town each winter. Explain whether snow clearing is a public good. **[4]**
4. Explain why a merit good is likely to be under-consumed in a free market. Use an example. **[4]**
5. At a price of 15 dollars, people buy 24 000 adult reading courses a year; fully informed, they would buy 36 000. By how many courses is the good under-consumed, and what percentage of the fully informed level is being bought?

Answers

1. **B.** Once the fireworks are in the sky, nobody in the city can be stopped from watching, whether or not they paid towards the display. A, C and D can all be withheld from anyone who does not pay (a subscription, a price, a ticket), so they are excludable. (1)
2. (a) **Private good**: rival (one pair per person) and excludable (you must pay). (b) **Free good**: it is not scarce and no resources are used to produce it, so there is no opportunity cost. (c) **Public good**: nobody in the town can be excluded from the benefit, and one person's protection does not reduce anyone else's. (d) **Demerit good**: over-consumed because smokers underestimate the harm to their health. (e) **Merit good**: under-consumed because people underestimate the benefit of finding eye problems early.
3. A public good is non-rival and non-excludable (1). Cleared streets are non-excludable, because once the snow is cleared the council cannot stop any driver or walker from using the street, whether or not they paid local taxes (1). They are non-rival, because one more car using a cleared street does not reduce the benefit to others (1). However, on busy streets congestion makes them partly rival, so snow clearing is best described as a quasi-public good; either conclusion with this reasoning earns the mark (1).
4. A merit good, such as a course of health check-ups, is more beneficial to the consumer than they realise (1). Because of imperfect information, consumers underestimate its benefits, especially those in the future (1), so their demand is lower than it would be if they were fully informed (1), which means less is bought and produced than is best for them: it is under-consumed (1).
5. Under-consumption is $36\,000 - 24\,000 = 12\,000$ courses a year. The amount bought is $\frac{24\,000}{36\,000} \times 100 \approx 66.7\%$ of the fully informed level.

Past questions to try

- **9708/11/O/N/22 Q2**: whether something a council gives away is a free good.
- **9708/13/M/J/23 Q1**: what would stop a local amenity being a public good.
- **9708/23/M/J/22 Q2**: why a new building project is a public good, then why merit goods come from both sectors.
- **9708/23/O/N/23 Q3**: why a city service is a private good, then whether it should be subsidised.