


# RBI GRADE B

## ESI Static

Types of goods



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# Types of Goods

## 1 What are Goods?

A **commodity**, or a **physical, tangible item** that satisfies some human want or need, or something that people find useful or desirable and make an effort to acquire it. There are various types of goods.

### 1.1 Economic Goods and Free Goods

#### Economic Goods

- Economic goods are those goods (manmade or free gifts of nature) whose **demand is more than supply** (i.e., they are scarce). They **command a price** and they can be bought in the market.
- **Example: toothpaste, soap, shaving cream, footwear, bread, machines, buses, table, chair, books, fans, television etc.**



#### Free Goods

- We can define free goods as goods which **possess utility** but which are **not scarce**.
- Free goods are **free gifts of nature**. They are available in abundance i.e., in **unlimited quantity** and the supply is much more than the demand.
- **Example: Sand, clean air, water etc.**



### 1.2 Consumer Goods and Producer Goods

#### Consumer Goods

- Consumer goods are those goods, which **satisfy the want of consumers directly**. They are goods, which are **used for consumption**.
- **Example: bread, fruits, milk, clothes etc.**



**Producer Goods**

- Producer goods are those goods, which **satisfy the want of consumers indirectly**. As they **help in producing other goods**, they are known as producer goods.



- Example: **machinery, tools, raw materials, seeds, manure and tractor** etc. are all example of producer goods.

**1.3 Single Use and Durable Use Goods**

**Single Use Goods**

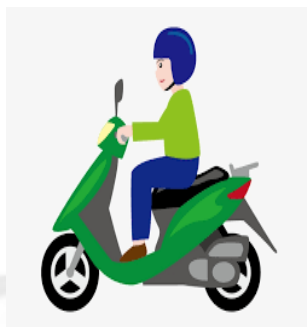
- Single use goods are those goods, which **can be used only once**. They are **finished in one use itself**.



- Example: **bread, butter, egg, milk** etc. are the single use consumer goods as they are consumed immediately and once and for all.
- Similarly, **single use producer goods** are exhausted in one production process. **Example: coal, raw material, seeds, manure** etc.

**Durable Use Goods**

- Durable use goods are those goods, which **can be used again and again for a long period of time**.



- Durable use consumer goods are **cloth, furniture, television, scooter** etc. that can be used by consumer again and again.

- Durable use producer goods are used in production again and again for example, **machines, tools, tractors and implements** etc. This does not mean that repeated use of these goods does not make any difference to them.
- In fact, the value of these goods gets depreciated after continuous use.

## 1.4 Private Goods and Public Goods

### Private Goods

- All goods that are **privately owned and are exclusively enjoyed by individuals** are called private goods. For



example, all the goods owned by you are private goods.

- Examples: **watch, pen, scooter, books, table, chair, bed, clothes** etc. If you own a **factory** then its building, machinery; tools etc. are your private goods.

### Public Goods

- Public goods are those goods, which are **owned and enjoyed by the society as a whole**. They are **available to all people in a society without any discrimination**, i.e., no one is denied from the consumption of public goods.
- Both **government** and private entrepreneurs may produce public goods, but it is usually the former.

- Example:  
**roads, bridges, park, town hall** etc. are all collectively owned.



- Economists refer to public goods as "**non-rivalrous**" and "**non-excludable**," and most such goods are both.
- Their **non-rivalry** refers to the fact that the **goods don't dwindle in supply as people consume them**; a country's **defenses**, for example, do not run out or diminish as its population grows.



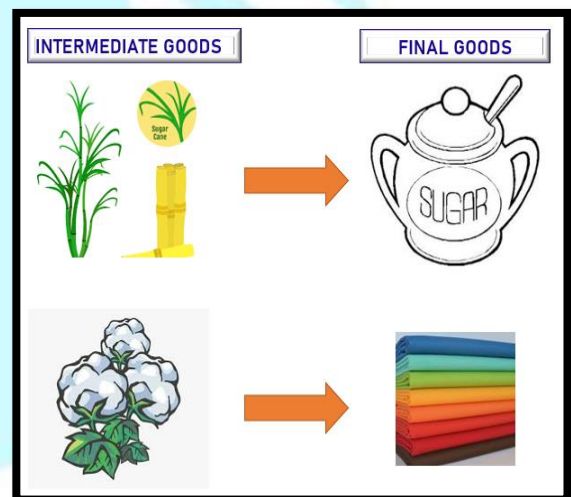
- **Non-excludability** means just that; the **good is available to all and cannot be withheld**, even from people who do not contribute to its public funding.
- That characteristic, in turn, leads to what is called the **free-rider problem** with public goods. Since you need not contribute to the provision of a public good to benefit from it, some people will inevitably choose to use the good and yet shirk the public responsibility to help pay for it.

## 1.5 Intermediate Goods

- An intermediate good is a product **used to produce a final good or finished product**—also referred to as a consumer good.
- Intermediate goods are vital to the production process, which is why they are also called **producer goods**. Industries sell these goods to each other for resale or to produce other goods.
- These goods are also **called semi-finished products** because they are used as inputs to become part of the finished product. When they are used in the production process, they are **transformed into another state**.

### 1.5.1 Intermediate Goods Versus Consumer & Capital Goods

- Intermediate goods can be used in production, but they can also be consumer goods. **How it is classified depends on who buys it.**
- If a **consumer buys a bag of sugar** to use at home, it is a **consumer good (final good)**. But if a **manufacturer purchases sugar to use during the production of another product**, it becomes an **intermediate good**.
- **Capital goods**, on the other hand, are assets that are used in the production of consumer goods. Key thing to note about capital goods is that they **don't transform, or change shape in the production process**.



### 1.5.2 Distinction Between Goods & Services

- **Goods are tangible** in nature i.e., they can be seen and touched. **Services are non-tangible** in nature i.e., they can neither be seen nor be touched.
- There is a **time gap between production and consumption** of goods as they are produced first and consumed later. There is **no time gap between the production and consumption of services**. That is why they are produced and consumed simultaneously.
- **Goods can be stored** and utilized when required. **Services cannot be stored**.
- **Goods can be transferred** from one place to another. **Transfer of service is not possible**.

Now that we have the nuts, bolts, components and tools in place, let us start putting them together. In the forthcoming sections we will be seeing how all factors of productions are brought together by various economic agents. We will be exploring the exchanges that take place between various economic agents in a market economy. First, we will discuss all the transactions that take place in a simple 'two sector model' economy.

## 2 Concept Check

**Q. Which of the following is/are examples of durable consumer goods?**

1. Petrol
2. Computer
3. Bread
4. Automobiles

**Select the correct answer using the code given below:**

- (a) 1, 3 and 4 only
- (b) 2 only
- (c) 2 and 4 only
- (d) 1, 2, 3, and 4

**Answer: C**

**Q. Which of the following options is correct with respect to 'Capital Goods'?**

- (a) They don't transform, or change shape in the production process.
- (b) They are bought for meeting immediate need of the consumer.
- (c) They are naturally available.
- (d) All of the above
- (e) None of the above

**Answer: A**

**Q. Which of the following is not an example of 'intermediate good'?**

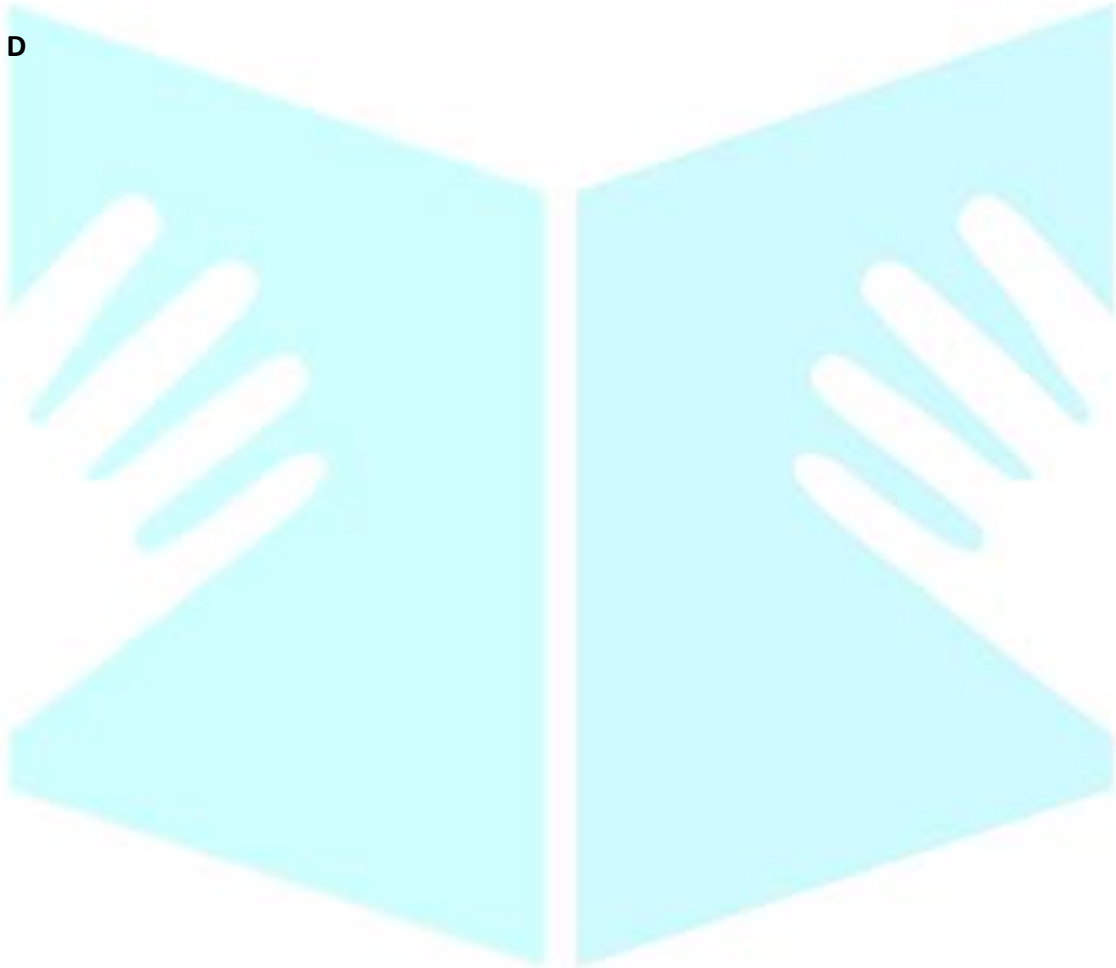
- (a) Cotton fiber used by a spinning mill.
- (b) Sugarcane used by a sugar mill.
- (c) Coffee beans used by a café.
- (d) Tea leaves used at home.
- (e) Synthetic rubber used by a tire manufacturer.

**Answer: D**

**Q. Which of the following options is correct with respect to 'Public Goods'?**

- (a) They are considered non-rivalrous as they don't dwindle in supply as people consume them.
- (b) They are considered non-excludable as they are available to all and cannot be withheld even from people who do not contribute to its public funding.
- (c) They are associated with free-rider problem.
- (d) All of the above
- (e) None of the above

**Answer: D**



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