

8. PUBLIC ECONOMICS

Course Objective: This course aims to provide an understanding of public economics principles, theories, and policies, enabling students to analyse and evaluate issues in government revenue, expenditure and debt management.

Course Learning Outcomes:

On successful completion of this course, the students will be able to achieve the following course learning outcomes

CO1: Explain and illustrate the basic concepts and principle of public finance

CO2: Discuss various sources of public revenue, different theories of taxation, tax systems and incidence of taxation

CO3: Analyse various principles, theories, practices of public expenditure with reference to public expenditure practices in India

CO4: Explain the concept of debt burden and its effect, budget concepts and deficits with reference to Indian economy.

CO5: Examine the importance of fiscal policy, fiscal federalism and discuss the role of finance commission with reference to India.

Unit 1: Introduction to Public Finance and Market Failure

- Meaning, Nature, Scope, Importance of Public Finance; Public vs Private Finance
- Principal of Maximum Social Advantage
- Types of Goods: Private, Public, Merit, Club Goods
- Problems of Market Failure, Externalities and Free Riding and Solutions.

Unit 2: Public Revenue

- Sources of Revenue: Tax and Non-tax; Canons of Taxation
- Theories of Taxation: Socio-Political Theory, Benefit Received Theory, Ability to Pay Theory
- Tax Systems: Progressive, Proportional, Regressive; Types of Taxes: Direct and Indirect
- Incidence and Effects of Taxation; Shares of Tax and Non-Tax Revenues in India.

Unit 3: Public Expenditure

- Principles of Public Expenditure (PE); Classification and Effects of PE
- Theories of PE: Wagner's Law, Peacock-Wiseman, Colin-Clarks Critical Limit Theory
- Determinants of PE; Criteria for Public Investment
- Trends and patterns of Public Expenditure in India; Reforms in public Expenditure in India.

Unit 4: Public Debt and Budget

- Public Debt (PD): Meaning, Types, Sources; Effects and Burden of PD
- Theories of PD: Classical Theory, Barro-Ricardo Equivalence, Keynesian Approach
- Shifting and Redemption of PD; Public Debt Management in India
- Budget: Meaning, Importance, Types; Basic Concepts and Deficits in Budget
- Fiscal Discipline and Consolidation, FRBM Act; Brief Analysis of a Recent Budget in India.

Unit 5: Fiscal Policy and Fiscal Federalism

- Fiscal Policy: Meaning, Objectives and Functions
- Principles of Multi-Unit Finance; Concept of Vertical and Horizontal Fiscal Imbalances
- Fiscal Federalism in India and Constitutional Provisions
- Recent Finance Commission: Objectives and Recommendations
- Issues and Challenges of Fiscal Federalism and State Governments Finances in India.

Reference Books:

1. Musgrave, R. A. & Musgrave, P. B. (2004), *Public Finance in Theory and Practice*. Fifth edition, TATA McGraw-Hill
2. Tyagi, B.P., “Public Finance”, Jai Prakash Nath Co., 1992.
3. Bhatia H.L., “Public Finance”, Vikas Publishing House Pvt.Ltd., 1984.
4. Dalton, H., “Principles of Public Finance”, Routledge, 1st Edition, 2009.
5. Stiglitz, J. E (2000), *Economics of the Public Sector*. W W Norton
6. Rangarajan, C. and D. K. Srivastava (2011), *Federalism and Fiscal Transfers in India*. Oxford University Press, New Delhi.
7. Open Source Online Materials & Videos: IGNOU, e-PG Pathasala, Economic Survey, SWAYM, Khan Academy etc.

Activities Suggested:

Unit 1: Assignment on importance of public finance and role of government in an economy

Unit 2: Make poster presentation of Indian tax system with revenue details from recent budget.

Unit 3: Organize debates on the growth of public expenditure in India and its management.

Unit 4: Assignments on the management of deficits and public debt and watch budget presentation and make analysis.

Unit 5: Quiz sessions on the recommendations of finance commissions with justification for changes in criteria/ quantum of devolution.