



**SECOND SEMESTER 2023-24**

**Course Handout Part II**

Date: 09-01-2024

In addition to part -I (General Handout for all courses appended to the time table) this portion gives further specific details regarding the course.

**Course No.** : ECON F341  
**Course Title** : Public Finance: Theory and Policy  
**Instructor-in-charge** : Dr. Mini Thomas P  
**Instructors** : Dr. Mini Thomas P

**1. Scope and Objective of the Course:**

The objective of the course is to acquaint the students about the fiscal functions of modern governments and to appraise them of the effects of overall expenditure and revenue policy of the government on the economy with emphasis on India.

**2. Text Book:**

1. Musgrave, R. A. and Musgrave, P. B. (2017): Public Finance in Theory and Practice, McGraw-Hill Book Company, New York.

**3. Reference Books:**

1. Gruber, J. (2016): Public Finance and Public Policy, Worth Publishers, Macmillan Higher Education Company, New York.
2. Rosen, H. and Gayer, T. (2012): Public Finance, McGraw-Hill Book Company, New York.
3. Sarma, J.V.M. (2018): Public Finance: Principles and Practices, Oxford University Press.
4. Rao, M. G. (2022): Studies in Indian Public Finance, Oxford University Press.

**4. Course Plan:**

Serial No.	Learning Objective	Topics to be covered	No. of lectures	Chapter in the Text Book
1	Why study public finance?	A. Introduction to Public Finance B. Public Finance in India's Development	2 2	Ch 1 of R1
2.	Allocation Public versus private provision	A. Externalities B. Public Goods	4 4	Ch 5 of R1 Ch 7 of R1
3.	Taxation versus Expenditure	Principle of Maximum Social Advantage	2	Class notes
4.	Equity in Distribution	Equity Efficiency tradeoff	3	Ch 6 of TB Class notes
5.	Voting Rules and Voting Paradox	Public Choice & Fiscal Politics	3	Ch 7 of TB

6.	Public Expenditure	Theories of Public Expenditure, Canons of Public Expenditure	3	Ch 3 of R4
7.	Taxation	A. Choice of Tax Base B. Incidence of Taxes C. Tax inefficiency and optimal taxation	3 2 2	Ch 19,20 of R1 Ch 13 of TB
8.	Public Debt Burden	Theories of Public Debt	3	Ch 20 of R2
9.	Budgeting in India, Centre State fiscal relations	A. Techniques of Budgeting, B. Union Budget of GoI C. Finance Commission	4	Ch 25 of R3 Class notes
10.	Education	A. Government Involvement in Education B. Competition in Education Markets	3 (40)	Ch 11 of R1

## 2. Learning Outcomes:

### Topic 1: Introduction to Public Finance

The student will be able to identify the four major questions in public finance and why a government should intervene in an economy. The student will be able to appreciate the importance of studying public finance through various case studies; appreciate current policy debates over social security, health care and education; define market failure and redistribution and summarise the different forms of government intervention to resolve market distortions. He or she will also be able to understand the role of public sector in India's development.

### Topic 2: Public Goods and Externalities

The student will be able to outline the implications of government policy, with respect to public goods and externalities. The student will be able to define public goods and externalities, compare the scenarios of efficient provision of private versus public goods, understand the free rider problem and throw light on the privatization debate. He or she will be able to understand the nature of externalities, and distinguish between the public and private responses to externalities such as Coase Theorem and Pigouvian Taxes.

### Topic 3: Principle of Maximum Social Advantage

The student will be able to define the Pigou-Dalton Principle, and explain the Principle of Maximum Social Advantage (MSA) with the help of Marginal Social Sacrifice and Marginal Social Benefit curves. He or she will also be grasp the limitations of Principle of MSA.

### Topic 4: Equity in Distribution

The student will be able to appreciate why equity belongs to economics, and distinguish between good inequality and bad inequality. He or she will be able to understand the limits to redistribution and the concept of size of the pie; and also outline the ongoing debates relating to inequality and economic growth.

### Topic 5: Public Choice

The student will be able to distinguish between a direct democracy and a representative democracy, define the various voting rules and the voter paradox, and the Leviathan hypothesis. He or she will be able to understand the role of bureaucrats and politicians, and the resulting distortions in campaign financing in a representative democracy, and also explain the alternate Marxian model of classes and interest groups.

### Topic 6: Public Expenditure

The student will be able to explain the various theories of public expenditure such as Wagner's Law and Wiseman Peacock Hypothesis, and compare public expenditure with private

expenditure. He or she will also be able to recall the different canons of public expenditure and distinguish between revenue and capital expenditure based on functional classification.

### **Topic 7: Taxation**

The student will be able to outline the three rules of tax incidence and identify as to who bears the ultimate burden of a tax, in product markets and factor markets. He or she should be able to distinguish between tax buoyancy and tax elasticity. The student will also be able to explain how elasticities determine tax inefficiency and arrive at optimal commodity and income taxes.

### **Topic 8: Public Debt**

The student will be able to understand how big is the public debt of various countries, and distinguish between debt, deficit and surplus. He or she outline the burden the public debt with the help of theories such as overlapping generations model and Ricardian model; and explain the efficiency and macroeconomic considerations behind making the government's decision to tax or to borrow.

### **Topic 9: Public Budget**

The student will be able to distinguish between various kinds of budgeting and describe the issues with Indian budgeting procedure. He or she will be able to explain the meaning of Consolidated fund, Contingency fund, Public Accounts, PPBS and zero-base budgeting. The student will also be able to recall the highlights of that year's Union Budget and the various criteria for tax devolution employed by the Finance Commission.

### **Topic 10: Education**

The student will be able to understand why the government should be involved in education, and appreciate why educational vouchers are more effective than free public education. He or she will be able to explain competition in education markets, and outline the measurement of returns to education. The student will also be able to understand the role of government in higher education, in the light of market failure.

### **3. Evaluation Scheme:**

<b>Component</b>	<b>Duration</b>	<b>Weightage (%)</b>	<b>Date &amp; Time</b>	<b>Nature of Component</b>
Mid-Semester Test	90 min.	35	14/03 - 9.30 - 11.00AM	<b>CB</b>
Assignment (2 including oral and written)	-	20	--	<b>OB</b>
Surprise Quiz (2)	-	5	-	<b>CB</b>
Comprehensive Exam	3 hours	40	13/05 FN	<b>CB</b>

- 4. Chamber Consultation Hours:** To be announced in class.
- 5. Notice:** All notices pertaining to this course shall be displayed on CMS.
- 6. Make-up policy:** Make-up will be granted only on genuine grounds and if prior permission is taken through official email only. Request for make up after the test/exam will not be entertained at all.
- 7. Academic Honesty and Integrity Policy:** Academic honesty and integrity are to be maintained by all the students throughout the semester and no type of academic dishonesty is acceptable.

Instructor-in-charge  
**ECON F341**