

BIRLA INSTITUTE OF TECHNOLOGY AND SCIENCE, PILANI
SECOND SEMESTER 2019-20
Course Handout Part II

Date: 06-01-2020

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, Dr. Shreya Biswas

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. (2007): Public Finance in Theory and Practice, McGraw-Hill Book Company, New York.

3. Reference Books:

2. Gruber, J. (2013): Public Finance and Public Policy, Worth Publishers, Macmillan Higher Education Company, New York.
3. Rosen, H. and Gayer, T. (2012): Public Finance, McGraw-Hill Book Company, New York.
4. Bhatia, H L (2003), Public Finance, Vikas Publishing House Pvt. Ltd., New Delhi.

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 R2 NIPFP Working Paper |
| 2. | Allocation Public versus private provision | A. Externalities B. Public Goods | 4 4 | Ch 5 of R2 Ch 7 of R2 |
| 3. | Taxation versus Expenditure | Principle of Maximum Social Advantage | 2 | Class notes |
| 4. | Approaches to Distributive Justice | Equity in Distribution | 3 | Ch 6 of TB |
| 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 | 4 | Ch 11 of R4 |
| 7. | Principles of Taxation | A. Introduction to Taxation B. Incidence of Taxes C. Approaches to Tax Equity | 4 2 2 | Ch 19,20 of R2 |

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|-----|-----------------------------------|---|-------|----------------------------|
| 8. | Public Debt Burden and Management | Theories of Public Debt | 3 | Ch 20 of R3 |
| 9. | Budgeting in India | A. Techniques of Budgeting, B. Union Budget of GoI | 3 | Ch 13 of R4 Class notes |
| 10. | Education | A. Government Involvement in Education B. Competition in Education Markets | 3(41) | Ch 11 of R2 |

5. 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 understand 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 the various approaches to distributive justice. 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 between good and bad equality and the price of inequality.

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: Principles of Taxation

The student will be able to outline the various approaches to tax equity such as benefit principle and ability to pay principle. He or she should be able to distinguish between horizontal equity and vertical equity and appreciate the magnitude of the tax burden. The student will also be able to explain the concept of tax incidence and how to measure tax incidence and distribution.

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 analyse its implications for Indian economy.

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.

6. Evaluation Scheme:

| Component | Duration | Weightage (%) | Date & Time | Nature of Component |
|---|-----------------|----------------------|------------------------|----------------------------|
| Mid-Semester Exam | 90 min. | 35 | 3/3 11.00 - 12.30 PM | CB |
| Assignment (2 including written and oral content) | - | 10+10 | | OB |
| Comprehensive Exam | 3 hrs. | 45 | 04/05 AN | CB |

7. **Chamber Consultation Hours:** To be announced in class.
8. **Notice:** All notices pertaining to this course shall be displayed on CMS.
9. **Make-up policy:** Make-up will be granted only on genuine grounds and if prior permission is taken. No application will be accepted in the Exam Hall. Make up will be given only on Doctor's/Warden's recommendation and with prior (at least 01 day before the exam) permission of the Instructor-in-Charge. Make-up application via sms/email is not acceptable.
10. **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