



Course Title: Public Economics
Credit Units: 3
Course Level: PG
Course Code: ECON602

L	T	P/ S	SW/F W	TOTAL CREDIT UNITS
3	-	-	-	3

Course Objectives: This subject aims at introducing principles of public finance, role of different governments, taxation, fiscal policy and federal finance in India. It talks about role and function of the government in a modern economy to give exposure to the students. The government plays different roles and performs varied functions which are different from earlier societies. In this context the public financial functions of the government need to be understood by a student by studying the relevant theory and empirical analysis

Pre-requisites: Knowledge of basic concepts of Micro and Macro Economic Theories.

Course Contents/Syllabus:

	Weightage (%)
Module I Introduction Role of government in managing the economy under different economic systems, Private, Public and Merit goods. Market Failure – Externalities, Decreasing Costs. Theoretical developments in Demand Revelation for social goods – Public choice-Voting System, Arrow’s Impossibility Theorem. Social Welfare Function: Bergson, Utilitaroin and Rawlsian Welfare Functions.	30
Module II Public Expenditure & Taxation Theories of Public Expenditure: Wagner’s law and Peacock-Wisemen Hypothesis. Reforms in Expenditure: Budgeting: Performance and Programme Budgeting and Zero Based Budgeting. Provision of public goods Bowen, Lindahl and Samuelson’s Models Taxation: Buoyancy and Elasticity of a Tax, Justice in Taxation-Ability to pay Approach-equal absolute, equal proportional and equal marginal sacrifice principles. Allocative aspect of a tax-concept and measurement of excess burden of a tax. Criteria for public investment –Social cost – benefit analysis – benefit estimation and evaluation.	30
Module III Fiscal Policy & Indian Tax Structure Fiscal policy for stabilization – Automatic v/s Discretionary stabilization, Formula Flexibility. Concepts of budget deficits. Indian tax system, Sources of tax and non tax revenue of Central government. Major Taxes: Personal Income Taxation, Corporate Income Tax, Central Excise, Custom Duties. Value Added Taxes, MODVAT and GST. An	20

introduction to sources of tax and non tax revenue of state and local governments.	
Module IV Federal Finance	20
Principles of multi – unit Finance, Fiscal Federalism in India:Vertical and Horizontal Imbalance, Constitutional Provisions, Finance Commission and Planning Commission. Devolution of resources and grants. Criteria for transfer of resources. Central – State financial relations in India	

Student Learning Outcomes:

Upon successful completion of the course, students will be able to:

- **Identify** the rationales for government intervention in the economy and their shortcomings
- **Define** and explain public finance terms such as “public good,” “free-rider,” “median voter theorem,” “externality,” “pigouvian taxes”, “Social welfare function”
- **Interpret** the role of fiscal policy for stabilization –Automatic v/s Discretionary stabilization.
- **Describe** the Principles of federal finance, identify fiscal imbalances and apply these principles to review the constitutional provisions regarding distribution of financial resources between different layers of government in India

Pedagogy for Course Delivery:

The course will be taught using a variety of modes –Lectures involving interactive sessions, Tutorials, Case studies wherever appropriate to relate Theory with Practice.

Theory Assessment (L&T):

Continuous Assessment/Internal Assessment						End Term Examination
Components (Drop down)	Mid-Term Exam	Class Test	Presentations	Attendance		
Weightage (%)	15	5	5	5		70

Text Reading:

- Musgrave, R.A. and P.A. Musgrave (1976), Public Finance in Theory and Practice, McGraw – Hill, New Delhi
- Musgrave, R.A., Theory of Public Finance, McGraw – Hill, New Delhi
- Rosen, Harvey, S & Ted Gayer, Public Finance, McGraw-Hill Higher Education
- Bhatia, H.L., Public Finance, Vikas Publishing House, New Delh

References:

- Mueller, D.C., Public Choice, Cambridge University Press, Cambridge.
- Brown, C.V. and Jackson – Public Sector Economics

Additional Reading:

- RBI Reports/Working Papers & Reports of Finance Commissions