

**Module I: Scope of Public Economics**

Role of Government in organized society; Changing perspective - Government in a mixed economy; Public and Private Sector; Market Failure - Imperfections, decreasing costs, externalities, public goods; Uncertainty and non-existence of futures markets; Informational asymmetry - Theory of second best.

**Module II: Public Choice**

Private and public mechanism for allocating resources; Problems for allocating resources; Problems of preference revelation and aggregation of preferences; Voting systems; Arrow impossibility theorem; An economic theory of democracy; Politico-economic bureaucracy; Rent seeking and directly unproductive profit seeking (DUP) activities.

**Module III: Rationale for Public Policy**

Allocation of resources - Provision of public goods; Voluntary exchange models; Impossibility of decentralised provision of public goods (contributions of Samuelson and Musgrave); Demand-revealing schemes for public goods - Contributions of Clarks, Groves and Leyard, Tiebout model, theory of club goods.

**Module IV: Fiscal Policy**

Objectives of fiscal policy - full employment, anti-inflation, economic growth, redistribution of income and wealth; Interdependence of fiscal and monetary policies; Budgetary deficits and its implications; Fiscal policy for stabilization - automatic vs. discretionary stabilization; Alternative measures of resource mobilization and their impact on growth, distribution and prices; Balanced budget multiplier.

## **Module V: Public Expenditure**

Wagner's law of increasing state activities; Wiseman-Peacock hypothesis; Pure theory of public expenditure; Structure and growth of public expenditure; Criteria for public investment; Social cost-benefit analysis-Project evaluation, Estimation of costs, discount rate; Reforms in expenditure budgeting; Programme budgeting and zero base budgeting.

## **Module VI : Public Debt**

Classical view of public debt; Compensatory aspect of debt policy; Burden of public debt; Sources of public debt; Debt through created money; Public borrowings and price level; Crowding out of private investment and activity; Principles of debt management and repayment.

## **Module VII : Taxation**

Theory of incidence; Rules of tax incidence - Allocative and equity aspects of individual taxes; Benefit and ability to pay approaches; Theory of optimal taxation; Excess burden of taxes; Trade off between equity and efficiency; Theory of measurement of dead weight losses; The problem of double taxation.

## **Module VIII : Fiscal Federalism**

Principles of multi-unit finance; Fiscal federalism in India; Vertical and horizontal imbalance; Assignment of function and sources of revenue; Constitutional provisions; Finance Commission and Planning Commission; Devolution of resources and grants; Theory of grants; Resource transfer from Union to States - Criteria for transfer of resources - Gadgil' - Mukerjee Formula - Centre-State financial relations in India - Problems of states' resources and indebtedness; Transfer of resources from Union and States to local bodies.



## **Module IX: Indian Public Finances**

Indian tax system; Union Govt. taxes and revenue, Major taxes in India; base of taxes, direct and indirect taxes, taxation of agriculture, expenditure tax, reforms in direct and indirect taxes, taxes on services; Non-tax revenue of Centre, State and local bodies; Analysis of Central and State Government budgets; Lack of flexibility in Central and State budgets, Shrinking size of development finance through budgets; Trends in public expenditure and public debt; Fiscal crisis and fiscal sector reforms in India; Reports of Finance Commissions in India.

## **Module X: Fiscal Policy**

Fiscal Policy - link between fiscal and monetary operation - Budgetary deficit and its measurement - fiscal policy for stabilization - Automatic vs. discretionary stabilization - Rules vs. Discretion - fiscal policy for development - Alternative measures of resource mobilization and their impact on growth, distribution and prices.

### **References:**

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- Auerbach, A.J. and M.Feldstern (eds) (1985), Handbook of Public Economics, Vol.1. North Holland, Amsterdam.
- Buchanan, J.M. (1970), The Public Finance, Richard D.Irwin, Homewood.
- Goode, R. (1986), Government Finance in Developing Countries, Tata McGraw Hill, New Delhi.
- Houghton, J.M. (1970), The Public Finance: Selected Readings, Penguin, Harmondsworth.
- Jha, R. (1998), Modern Public Economics, Routledge, London.
- Menutt, P. (1996), The Economics of Public Choice, Edward Elgar, U.K.

Musgrave, R.A. (1959), The Theory of Public Finance McGraw Hill, Kogakusha, Tokyo.

Musgrave, R.A. and P.B.Musgrave (1976), Public Finance in Theory and Practice, McGraw Hill, Kogakusha, Tokyo.

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