

ECO-HE-5036: PUBLIC FINANCE

Course Description

This course is a non-technical overview of government finances with special reference to India. The course does not require any prior knowledge of economics. It will look into the efficiency and equity aspects of taxation of the centre, states and the local governments and the issues of fiscal federalism and decentralisation in India. The course will be useful for students aiming towards careers in the government sector, policy analysis, business and journalism.

Course Outline

Part 1: Theory

1. Normative Theory of Public Finance –Nature and Scope: Allocation Function, Distribution Function and Stabilization Function. Coordinating the functions.
2. Public Goods and their characteristics. Free Rider Problem and Market Failure, Externalities vis-à-vis Public Good.
3. Direct and Indirect Tax. Concepts of taxation: tax rate, buoyancy & elasticity of a tax. Proportional, Progressive and Regressive Taxation. Benefit Principle and Ability to Pay Theory.

Part 2: Issues from Indian Public Finance

4. Fiscal Policies: Definition and Objectives. Instruments of Fiscal Policy. Adopting Monetary Policy to complement Fiscal Policy: The Indian Experience.
5. Indian Tax System. Direct Taxes: Income Tax, Corporate Tax, Customs Duty etc. Reforms in the Indirect Tax Structure: Goods and Service Tax.
6. Structure of the Public Budget. Types of Deficits and their significance: Revenue Deficit, Fiscal Deficit and Primary Deficit
7. Fiscal Federalism in India: Principles of Fiscal Devolution, Horizontal and Vertical Fiscal Balance. Federal Finance and the Finance Commission.
8. State and Local Finances. The State Subjects and its Budget. Fiscal decentralization: Role of Municipalities and Gaon Panchayats.

Readings

1. Musgrave, R.A. and P.B. Musgrave, *Public Finance in Theory and Practice*, Mc-Graw Hill, 1989.
2. Mahesh Purohit , “*Value Added Tax: Experience of India and Other Countries*”, Gayatri Publications, 2007.
3. KaushikBasu, and A. Maertens (ed.), *The Oxford Companion to Economics in India*, Oxford University Press,2007.
4. M.M Sury, *Government Budgeting in India*, Commonwealth Publishers, 1990.
5. Shankar Acharya, “Thirty years of tax reform” in India, *Economic and Political Weekly*, May 2005.
6. Government of India, *Report of the 13th Finance Commission*.
7. *Economic Survey*, Government of India (latest).
8. State Finances: A Study of Budgets, *Reserve Bank of India* (latest).

