

## III SEMESTER

### Hard Core

#### EC 501 PUBLIC ECONOMICS

➤ **Learning Objectives and Outcomes:**

- Public economics is the hard core paper for which syllabus is designed to impart basic knowledge on public economics.
- By learning this paper student are expected to know about importance of public finance and also policies and theories of public economics-Role of government, Public Choice and Rationale for Public Policy, Fiscal Policy and Taxation, Public Expenditure and Public Debt and Fiscal Federalism

#### **Module I: Introduction to Public Economics:**

Public Finance and Public Economics- Subject matter of Public Economics and Role of Government in the development context; Changing Development Perspective-Special Role of Government in developing economics- Market Failure- causes and measures-missing markets - Pareto criteria and optimality conditions - Fundamental Theorem of Welfare Economics - Theory of second best.

#### **Module II: Public Choice and Rationale for Public Policy:**

Private and public mechanism for allocating resources in democratic countries; Problems of efficient allocation of resources; Problems of preference revelation and aggregation of preferences; Arrow impossibility theorem; Rent seeking and directly unproductive profit seeking (DUP) activities.

Public Goods and its provisions-problems and emerging issues in financing the public Goods-Voluntary exchange models; Impossibility of decentralized provision of public goods-contributions of Samuelson, Clarks, Groves and Ledyard, classical theory of club goods-Tiebout model.

#### **Module III: Fiscal Policy and Taxation:**

Objectives of fiscal policy- Interdependence of fiscal and monetary policies; Budgetary deficits and its implications - FRBM Act and its impact.

Tax incidence-economic and statutory tax incidences-rules for tax incidences; Allocative and equity aspects of individual taxes; Benefit and ability to pay approaches;

Theory of optimal taxation; Ramsey Rule on Commodity Taxation-Benefits and tax savings - Trade-off between tax equity and efficiency; Theory of measurement of dead weight losses.

Indian tax system; Major taxes in India; taxation of agriculture, expenditure tax, reforms in direct and indirect taxes, taxes on services; GST in India- Non-tax revenue of Centre, State and local bodies; problem of tax autonomy and decentralization- Lack of flexibility in Central and State budgets- Need for budgetary reforms at the state level.

#### **Module IV : Public Expenditure and Public Debt:**

Wagner's law of increasing state activities; Wiseman-Peacock hypothesis; Samuelson's Pure theory of public expenditure; Structure and growth of public expenditure in India; Criteria for public investment; Social cost-benefit analysis-Project evaluation, Estimation of costs, discount rate; Reforms in expenditure budgeting; Fiscal crisis and fiscal sector reforms in India

Public debt Theories-Trends in growth public debt in India- Impact of public debt on India's growth; Management of Public debt management policies, recent emerging issues in generating revenue to control rising public debt burden in India.

#### **Module V : Fiscal Federalism:**

Fiscal federalism in India; Vertical and horizontal imbalance; Assignment of function and sources of revenue; Constitutional provisions; Finance Commission, Reports of Finance Commissions in India.

NITI Commission - Changing Perspectives on executing planned programme and Make in India Strategy; Devolution of resources and grants; Theory of grants; Resource transfer from Union to States-Criteria for transfer of resources-Centre-State financial relations in India-Problems of states' resources and indebtedness; Transfer of resources from Union and States to local bodies. Emerging policies- changing perspectives on cooperative federalism in India. Changing role of NITI Ayog and the Finance Commission.

#### **References;**

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