MODULE-I

IV- 1. PUBLIC FINANCE

Q:1 Discuss the Concept of Public Finance ?

(A) **INTRODUCTION** :- Public Finance is a study of Income and Expenditure of government at local, state and National Level. Public Finance is the study of Finance of government which plays an important role in developed and developing economy. Democratic government make use of Fiscal Policy to raise revenue and spend expenditure to achieve targets of country.

(B) **Public Finance** :- Public Finance is a Social Science which is related with Problems of Collecting funds and allocation of funds for collective satisfaction of wants. Public Finance is the study of Income and Expenditure at Local, state and central level for Collective satisfaction of wants.

(C) **Meaning** :-

1. **According to Hugh Dalton** :- "Public Finance is concerned with the income and Expenditure of Public authorities and with the adjustment of one with other".
2. **Taylor** :- "Public Finance is the Fiscal Science, its Policies are Fiscal Policies, its Problems are Fiscal Problems".

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(D) **Concepts of Public Finance** :- There are two main concepts of Public Finance -

1. **Fiscal Policy** :- Fiscal Policy is one of important Policy of government that deal with Raising Revenue and spend to satisfy collective Social wants. Fiscal Policy is related with - Tax Policy, Expenditure Policy, Investment of Disinvestment Policy, Public Debt management etc.

2. **Budgetory Policy** :- Budgetory Policy means the Governments Policy to implement and manage a budget. It helps to mobilise the resources equally in the country. It helps the Government to control Public Expenditure to reduce deficit.

Q:2 Explain the Scope of Public Finance in India?

(A) Introduction
(B) meaning - one definition } Same Q:1
(C) **Scope of Public Finance** :-

- 1. Public Revenue
- 2. Public Exp.
- 3. Public Debt
- 4. Financial Administration

1. **Public Revenue** :- Public Revenue is the main source of income for government. It include Direct and indirect Taxes, Canons of Taxations, Incidence and Shifting of Taxes, Effects of Taxation etc. It also suggest various measures to increase Public Revenue.

2. **Public Expenditure** : The Revenue collected by government have to be spend on various goods and services to satisfy collective social wants.
It is related with → Classification of Public Expenditure, Canons of Public Expenditure, Causes of growth of Public Expenditure, Effects of Public Expenditure etc.

3. **Public Debt** :— When Public Expenditure is morethan Public Revenue, then government borrow funds is called Public Debt.
Public Debt deals with the study of different types of debts, Causes and burden of Public Debt, Impact of Public Debt and management of Public Debt etc.

4. **Financial Administration** :— It deals with the Problem of How the Financial Machinery (system) is organised and working in a country.
It is related with Preparation and implementation of Budget, Budgetory Policies, Fiscal management and Fiscal Responsibility.
It explains inter-governmental financial relation and working of government at Local, State and central government Level.

Q:3 Discuss the major function of Public Finance?

(A) Introduction } same from Q:1
(B) Meaning

(C) **Functions of Public Finance / Fiscal Functions :—**

The Functions of Public finance are related with Collection of revenues and expenditure on Various activities. But the Last few years, the role and Scope of Public finance has increased. because nowadays Government is known as 'Welfare State'.

Main Functions are —

1) To Maintain Growth Rate of Economy.
2) To Develop Basic Infrastructural Facilities
3) To maintain Law and order
4) To maintain International Relations.
5) To Protect County From External Attack
6) To Protect Human Rights.
7) To Control anti-Social activities
8) To Protect/Conserve Natural resources
9) To Increase Income and Employment
10) To Produce and Distribute Essential and rare commodities
11) To Promote Social welfare, Social Security.
12) To Regulate Trade, Commerce and Industries etc.

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(D) Functions of Public Finance - According to Musgrave

1. **The Allocation Function :-** Allocation of resources depends Upon the Collection of Taxes and Composition of government expenditure. Allocation function helps government in achieving Socio-economic objectives of development. The government has to adjust resources between Public goods and Private goods.

2. **The Distribution Function :-** Public finance helps government in distribution of National Income and resources.

Government Uses Taxes and Public Expenditure Policies to reduce inequalities of income and wealth.

(e.g) Progressive Direct tax impose heavy burden on rich as compare to Poor.

Public Expenditure on Social infrastructure (health & Education), subsidies on food helps to reduce income Inequalities.

3. The Stabilisation function :- Public finance plays an important role to bring Economic stability. It means there is no Trade cycles in the economy like - booms and depressions.

Example :- During Recession, government Follows Deficit Budget i.e. More Public Expenditure to create more income & Employment.

During Inflation, government follows Surplus Budget i.e - Public Expenditure is reduced and more taxes are collected.

4. The Growth Function :- The main objective of Fiscal Policy is to achieve economic growth and development. Government create more employment, more investment, Control inflation and reduce income inequalities with the help of Fiscal Policy.

In developing countries, the government can transfer resources from consumption to investment and create Socio-economic Capital of country. Also Government can raised resources through borrowing and Deficit Financing for development of country. It is called 'Compansatory finance'.

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