Public Finance

Principles and Practices

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Preface

For a long time, there is a felt need for a comprehensive and updated textbook on Public Economics for graduate and postgraduate students that is more relevant for the developing world especially India. Public economics being a part of the core curriculum of the higher learning, there is a need to fill this gap.

Governments everywhere are entrusted with substantial resources by their citizens for providing them with public goods and services. What methods governments use to raise the resources and what they do with these resources significantly affect the well-being of the citizens. Public economics as an academic discipline is devoted to the task of understanding the responsibilities and limitations of government. Today, a rich and varied body of knowledge on the subject exists. An important mission of higher education in economics is to pass on this knowledge to students, who in future, as citizens, as government officials, as politicians, or in some other capacity will have to make choices about public policy in one way or the other.

The few available textbooks on the subject are not quite able to meet the needs of the students. Firstly, because most of these books are not comprehensive in coverage of the syllabus required for the graduate and postgraduate students in this country and do not cover recent developments in the subject. Secondly, most of these textbooks in the developed world are written primarily for students and researchers of countries such as USA, UK, or Australia, drawing on the experience of and citing the examples from those countries. Consequently, students in the developing world, including India, find it somewhat difficult to understand and appreciate the relevance of the theories in the Indian context. Thirdly, the few textbooks on the subject written by Indian scholars have become outdated.

About the Book

The book *Public Finance* is an attempt to fill this gap in the public economics knowledge dissemination. The target groups of the book are undergraduate, graduate, and postgraduate students with little prior exposure to economic theory in general and public economics in particular. Having taught Public Economics as a compulsory course at the masters' level for over two decades and having trained several fiscal policy practitioners, I constantly kept in view the level of understanding, the capacity of the students to absorb the subject, citing examples from the Indian fiscal experience as well as other countries. Simultaneously, all the essential mathematical and statistical techniques and empirical methods required for understanding the subject have been introduced in this book. This book aims to bring together the various streams of thought on public finance as well as make the students understand the institutional and practical aspects. It is designed to provide the necessary tools and conceptual framework to understand the fiscal situations around the world.

Key Objectives of the Book

The following are the key objectives of this book:

1. Provide basic understanding of the conceptual and theoretical issues in public finance/public economics
2. Train students in the use of the analytical methods used in public economics, and the role of the state in principle and practice around the world
3. Provide a comprehensive foundation in the principles underlying tax and non-tax design, the provision of goods in the public sector, and tax enforcement
4. Enable students to understand the practical problems involved in implementing these principles

Pedagogical Features

Each chapter concludes with a selective, annotated reading list and questions for discussion. The reading lists contain an appropriate mixture of classical readings and the latest research findings. By drawing on insights from normative public finance, public choice, and new political economy, the book aims to give a boost to undergraduate and postgraduate teaching in public finance in an engaging, clear, and well-organized fashion. A significant contribution of the book is to strike a fine balance between theoretical and practical aspects of public finance. At the end of each chapter, model questions that emphasize the important points of the topics are also provided.

Other important features of the book include learning objectives at the beginning of every chapter; figures/charts and tables interspersed with the text; and summary at the end of every chapter.

Content and Structure

The book is divided into nine modules, comprising 27 chapters.

Module I: The Basics

Module I provides the basic building blocks for understanding the subject. It discusses the need for and role of government intervention, the issues relating to public goods and how they are not amenable to the conventional microeconomic analysis, the conceptual issues of what is 'public interest', and how to consolidate the preferences of individuals in a society or community into 'public choice' for goods and services.

There is no unanimity among the scholars as regards government intervention. The classical economists and their supporters argued that the economy can take care of itself and there is no need for government intervention. On the contrary, the Keynesians argued that there are no built-in forces for the economy to reach the full employment equilibrium, primarily because of the inherent delays in market adjustments, and the economy is prone to wide fluctuations in growth and employment. Government intervention might reduce such delays in market adjustments and help in attaining the equilibrium. However, all through there have been two basic assumptions: all goods are 'private' and 'marketable'. Free markets operate under perfect competition and therefore function efficiently. As we know that these assumptions rarely hold, and therefore market failures are more common, necessitating significant government interventions. If government intervention is needed for 'public good' and market inefficiency reasons, then the possible solution is government participation in the provision of such goods and services.

The issues then would be: What are these 'public goods', why are they not amenable for the market mechanism, what public goods and services are to be provided by the government, in what quantities, how to distribute them, and how to finance the acquisition of such goods and services. In the case of 'private' goods and services, the quantities and prices as also the distribution mechanism are determined by the market forces. However, this is not so in the case of public goods where markets cannot function. Thus, there is a need to find alternative mechanisms. As regards the first question what goods and services are to be provided and in what quantities, it is necessary to assess the preferences of the consumers. Unlike in the case of private goods, there is no mechanism that reveals the consumer preferences. One individual may want a road, another prefers a street light, yet another may prefer a park, and so on. The preference rankings differ from person to person and there must be a mechanism to assess the collective preferences. The age-old method of course is the democratic method of taking the majority preference. However, it is well-known that majority voting need not always represent the collective preferences. Therefore, how to assess the collective preferences is a major issue.

Even preceding the issue of how to assess the collective preferences is another important issue before the government. That is, what exactly should be the ultimate aim of a government in a democracy? Well, the ultimate aim of a democratic government is to increase the welfare of the citizens. The question then arises is: how do we measure the collective welfare of the citizens? Can the government make everybody happier always? Or is it enough if the majority of the citizens are made happier? How exactly is the collective welfare measured and assessed? There is a need to answer these questions before attempting to assess the collective preference rankings of the goods and services to be provided by the government.

Module II: Public Expenditure

Module II deals with the public expenditure issues. It discusses how the size and composition of public expenditure is determined at the micro project as well as at the aggregate economy level. It examines the various theories and notions of the public expenditure growth and pattern. It also discusses some of the widely used analytical tools for the purpose.

Assuming that we found a way to assess the social welfare and to sum up the individual preferences for a set of public goods and services, even then there are some more crucial choices to make. Suppose there exist two or more alternative sets of public goods that might deliver the same amount of social welfare. The issue would be how to choose or rank them. Here, one way could be to consider the respective costs of providing the alternative sets of goods and services in relation to the expected benefits. Thus, the issue would be to conduct cost–benefit analysis for each set. Public expenditure generated in this way in most free-enterprise democratic economies has been growing by leaps and bounds. Today, government expenditure forms an important component of aggregate expenditure of an economy with significant role in the macroeconomic dynamics. This calls for a closer examination of the trends and patterns of total government expenditure. Further, it will be useful to empirically see how it is related to the economic growth. Underlying the aggregate causality relation between the national income and government expenditure is a process of interlinkages between different sectors of the economy. A disaggregated sectoral impact of the government expenditure on the national income and output would be more useful. The input–output analysis can be one of the methods to measure the sectoral impact.

Module III: Public Revenue

Module III deals with government revenues, especially the tax revenues, and discusses the basic general principles of taxation, issues of tax productivity, and tax shifting.

Assessing the public choice for public goods, determination of their quantity and mode of provision is one aspect. The other aspect involves how to meet the costs of provision—either by production or by direct purchase or import. The financing of the cost of providing public goods and services can be carried out in four ways: taxation, public borrowing, direct sale of goods and services, and profits of public sector undertakings. Each method of raising the finance involves certain economy-wide macro impact and the extent and quality of the impact differs from one method to another. Therefore, it is necessary to maintain a balance, keeping in view the overall impact. It should be now clear that the expenditure allocations for the provision of public goods and services and the revenue raising instruments together form the overall fiscal policy. Compared to the monetary policy, fiscal policy tools are much more varied and therefore fiscal policy is found to be more effective in influencing the macroeconomy.

Further, between the expenditure tools and revenue tools, the latter are more powerful with far less side effects. That is the reason why government policy-makers are more concerned about the taxation side. Since the ancient times, most governments have used the tax instrument to raise revenue extensively. There are quite a few agreed general principles of taxation.

Module IV: Taxation of Income and Wealth

Module IV dwells on the issues relating to each of the major direct taxes. There is also a need for integrating the individual income taxation and corporate income taxation. Different forms of integration are in vogue across the countries. Further, there are several thorny issues with the companies spreading over different countries, emphasizing the need for cross-border harmonization of income taxes. The policy instruments under direct taxation are more forthright. Taxation requires accurate tax law, efficient tax collection machinery, and simple and persuasive system. The concept of income should be unambiguous. There is the issue of adopting either the global rate system or the scheduler system. The main issues are inflation adjustment, choice of taxable unit, the tax progressivity issue, etc.

Designing the tax system involves resolving several issues: determining the rate structure, the dividend double taxation issue, the interest deductibility issue, inflation adjustments, tax depreciation, and tax incentive issues. There is the issue of determination of the residence, issue of which country should have the right to tax such multinational companies, how to harmonize the tax systems so that the tax system is neutral to the capital movements, the role of bilateral and multilateral double taxation avoidance agreements, etc.

Module V: Public Revenue—Indirect Taxes

Under indirect taxation, the main issues pertain to the reduction of the cascading and pyramiding effects (basically levying and charging taxes on the already taxed value of the goods and services at multiple stages) so that the tax burden on the consumers is minimized. For this purpose, the commodity tax systems world over are revamped into the value added tax (VAT) or its variant, the goods and services tax (GST) that includes taxation of services. It is useful to have an overview of the pre-VAT indirect tax structures that include customs, central excise, sales taxes, and local commodity taxes like octroi. The various problems in defining the tax bases for each tax, the exemptions, incentives, and the administrative problems in implementation and the need for reform are looked into. The indirect tax reform recently took the shape of redesigning in the form of VAT and GST. The issues and problems in the new system as also in the transition especially in federations like India are discussed.

Module VI: Public Revenue—Non-taxes

Module VI covers the non-tax revenues and examines the concerned issues. They are revenues obtained on *quid pro quo* basis for the services rendered by the government. Non-tax revenues form significant portion of government revenues around the world but in India, their contribution is low. The different types of non-tax revenues, the theoretical perspectives, and so on are covered in this module.

Module VII: Role of Fiscal Policy and Public Debt

Module VII examines the role of fiscal policy and issues concerning public debt, and its implications on the economy. We shall study what fiscal instruments are employed and how exactly the fiscal instruments influence the macroeconomy, the specific nature of the fiscal policy in the developed and the developing countries like India, and also discuss certain summary indicators of the performance of fiscal management such as the fiscal and revenue deficits as also the phenomena of crowding-in and crowding-out. Public debt management policy can be an important ingredient of the overall government fiscal policy. The need for and the incidence of public debt, how public debt affects macroeconomy, its consequences, and the public debt management in India are discussed in this module.

Module VIII: Federal Fiscal Issues

Several countries have adopted the federal form of governance. However, the sharing of fiscal powers between the federal and provincial governments is a major challenge. This module is devoted to examining some of these issues of the major federations along with India. With the adaptation of federal form of government, issues relating to the revenue sharing between different tiers of government—federal, provincial, and local—have been drawing increasing attention from the policy-makers. The federal fiscal sharing in India is primarily in the hands of the Finance Commissions. A review of this system and the possible reform are discussed.

Module IX: Macro-fiscal Management

Finally, module IX deals with macroeconomic-level public policy issues, such as budgetary mechanism, fiscal accountability issues, and the macro-fiscal dynamics. It illustrates the Indian budgetary practices, and discusses some recent budgetary reforms and their significance. It further deals with the fiscal monitoring methods illustrating the constitutional and institutional arrangements of fiscal monitoring of the central and state governments in India. It also examines the working of the recent policies such as fiscal responsibility and budget management (FRBM), and the future course of action in this respect.

Online Resources

To aid the faculty using this text, the following resources are made available on the companion website at india.oup.com/orcs/ 9780199479610.

- Instructor's Manual
- PowerPoint Slides
- Multiple Choice Questions

Any comment or suggestion for the improvement of the book can be sent to the publisher or me at jvm_sarma@hotmail.com.

J.V.M. Sarma

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MODULE I: THE BASICS

1

Introduction

Learning Objectives

1.1 How public finances affect the economy
1.2 Need to study public finance
1.3 Public finance and public economics
1.4 Origins of public finance
1.5 Public finance through ages

Keywords

Fiscal policy, government expenditure, public economics, public finance, public goods

Public finance touches our everyday lives in many ways. On one hand, in terms of the burden of taxes that the citizen has to bear, and on the other, with respect to the financing and management of social welfare schemes or implementing of the policies for accelerating economic growth and development. Every year, when government presents its budget, we witness a lot of excitement among the people, media coverage, discussions, and debates. However, public finance is much more than glancing at the annual budgets and reacting to that. The study of public finance helps us to understand and analyse the impact of government tax, expenditure, and debt policy on the allocation of resources and the distribution of income in the economy.

1.1 HOW PUBLIC FINANCES AFFECT THE ECONOMY

Let us consider an example of government spending. For instance, say a government builds an irrigation or power project by spending some of the resources it collects by way of taxes. This expenditure is likely to have a chain impact on the economy, for instance, through increased productivity in agriculture and other sectors and industries of the economy that are dependent on power use. Similarly, let us consider that government undertakes a road project. This will help expand the supplies of goods because of better transport infrastructure. All this is likely to create new jobs and additional income, which in turn, is liable to increase the demand for goods and services, and necessitate an increase in production to cater to this newly generated demand. In this way, the economy can be put on a higher growth trajectory. On the other hand, when government increases taxes, households and businesses have less income to spend, which leads to a decline in the demand for goods and services. Consequently, the economy tends to shrink.

Revenue generation through taxes on one hand and the use of public funds on the other are decided by fiscal policy. Fiscal policy of a government comprises the ways it can collect taxes and incur expenditure to influence the performance of the economy. If the government expenditure exceeds the revenues, it results in fiscal or revenue deficits. Governments finance deficits by borrowing money. When the government uses borrowed money to undertake public projects, it can be helpful for the economy. For instance, when there is high unemployment, the government can initiate new capital projects, thereby creating additional jobs. The output in the economy will then grow. The increase in effective demand, or demand backed by purchasing power, when channelled into economic activity, will generate more income and wealth. However, this will not be possible in a full employment situation as there will be no available labour to employ in production. More money in the economy will then simply mean that people are willing to pay more for the items they wish to buy, due to which, prices are liable to rise. Thus, potentially but not necessarily, a fiscal deficit may result in rising prices.

Each year the national, state, and local level governments prepare their respective budgets to determine how much money they will be spending during the upcoming year and how they are going to finance the expenditure. A government budget determines which public goods to produce, which spillovers to correct, and how much assistance to provide to the financially disadvantaged people.

1.2 NEED TO STUDY PUBLIC FINANCE

There are several reasons for studying public finance as a discipline. Some of them are as follows:

1. It is fascinating to understand how a government works and manages the economy. An understanding of the principles of public finance can help in more effective governance. The knowledge of the working of the government and the public sector can help form better public choices.
2. World over, government expenditure and revenues form substantial portion of a country's total gross domestic product (GDP). As such, government spending can have far reaching effects on the economy. Therefore, it is imperative to understand the resource allocation by the government, and especially in a democracy, how the voters' choices are translated into public sector policies. The study of the public sector decision-making process can help us better comprehend what the government does and why.
3. An understanding of public finance can help determine the right size and nature of government intervention in the economy, what activities government should undertake, and what activities are better left to the market.

1.3 PUBLIC FINANCE AND PUBLIC ECONOMICS

Often, there is a confusion as to whether the subject is to be referred as 'Public Finance' or 'Public Economics'. Which is the correct nomenclature? Are they synonymous and interchangeable? It is well-debated in the literature and gradually the mist is getting cleared. As Rosen puts it, 'that the term "public finance" is something of a misnomer, because the fundamental issues are not financial (that is, relating to money alone). Rather, the key problems relate to the use of real resources.' (Rosen, 2001, p. 4). It is in this context that the term 'public economics' began to gain circulation. 'In the post-war period, a splintering of approaches has taken place, sufficiently so that it is meaningful to distinguish between the old public finance and the new, recognizing that new is not a synonym for better. The old public finance has not been replaced by the new. Both are practised currently, and are competing for the affection and attention of scholars. If the old style is still called public finance, the new style is often called public economics instead. This distinction is found in contemporary texts and journals. For instance, there is a *Journal of Public Finance and Public Choice* and *a Public Finance Review*. There is also a *Journal of Public Economics* and *a Journal of Public Economic Theory.*' (Backhaus and Wagner, 2004, p. 2). Scholars did welcome the broader treatment of public finance. For example, Richard Goode sensed that 'A sophisticated and unified treatment of the economic, political, legal, and administrative elements of public finance is needed. Unification would represent a return to a tradition as old as that of the cameralists ….' (Goode, 1970, p. 34).

Clearly, the subject has come a long way from its initial emphasis upon the collection and allocation of government revenues and so was aptly called public finance. However, now that the scope is widened to include all aspects of government interventions in the economy, it is better to refer to it as public economics.

1.4 ORIGINS OF PUBLIC FINANCE

The subject of public finance basically arose from the need for government intervention in the society. As Bastable puts it, 'In any society that has passed beyond the lowest state of social development, some form of governmental organization is found to be an essential feature .... Every governing body or "State" requires for the due discharge of its functions repeated supplies of commodities and personal services which it has to apply to accomplishment of whatever ends it may regard as desirable. The processes involved in obtaining and using these supplies naturally vary much in the several stages of social advance. The supply and application of state resources constitute the subject-matter of Public Finance.' (Bastable, 1895, p. 4, Int.1). When the society was primitive, the functions of governments were few, but as the society grew and became complex there arose a need for more and more regulations and rules. A government has to first secure the resources, that is, materials and services either from an existing source, or produce them on its own, or acquire them from some other agency. The methods used by governmental units for securing resources as well as the uses to which they may be put to differ widely. Nonetheless, it is a part of the business of governments to secure the resources to meet various demands of its citizens.

In macroeconomics, an important question that is repeatedly raised is whether the economy can function without government intervention and if not, what should be the extent of government intervention in the economy. In fact, the appropriate role of the government in an economy has been the fundamental cause of disagreement and debate among economists on matters of policy. There are two main intellectual traditions in macroeconomics that can be broadly defined as the 'Classical' and 'Keynesian' approaches. The extent and form of government intervention in the economy was a major concern of Adam Smith (Smith, 1776) in *The Wealth of Nations* and the rejection of uncontrolled laissez-faire by John Maynard Keynes (Keynes, 1936) in the *General Theory of Employment Interest and Money*. During the 20th century the really big questions in macroeconomics revolved around this issue. 'One view and school of thought, associated with Keynes, Keynesians and new Keynesians, is that the private economy is subject to coordination failures that can produce excessive levels of unemployment and excessive fluctuations in real activity. The other view, attributed to classical economists, and espoused by monetarists and equilibrium business cycle theorists, is that the private economy reaches as good an equilibrium as is possible given government policy.' (Fischer, 1987, p. 1). Many seem to agree that some degree of government intervention is necessary. The classical economic thought assumes the existence of perfect competition, which is far from the reality. Today, almost all economies are characterized by government intervention—only the extent, method, and form of the intervention differ.

Government intervention, measured in terms of the share of public expenditure in GDP, is anywhere between 30 and 50 per cent in some of the European countries (Tanzi, 2008, p. 11) that are normally regarded as free enterprise economies, such as Sweden, France, United States, New Zealand, Australia, Denmark, and Finland, characterized by minimal government intervention. As James Buchanan—the well-known public choice theorist—puts it, 'As they emerged from World War II, governments, even in Western democracies, were allocating between one-third and one-half of their total product through collective-political institutions rather than through markets. Economists, however, were devoting their efforts almost exclusively to explanations—understandings of the market sector. No attention was being paid to political-collective decision-making. Practitioners in political science were no better. They had developed no explanatory basis, no theory as it were, from which operationally falsifiable hypotheses might be derived. The whole politicized sector of social interaction was, therefore, "crying out" for explanatory models designed to help understand the empirical reality that was observed.' (Buchanan, 2003, p. 1).

For a long time, public finance was conceived as a multi-disciplinary field of study rather than as a subset of economic theory. 'The object that public finance scholarship examined, the public household, was examined in a manner that sought to integrate the economic, political, legal, and administrative elements of public finance.' (Backhaus and Wagner, 2004, pp. 1–2). The methods and tools include the tax policy, expenditure policy, public debt policy, the legal and institutional set up, and the establishment of the public sector. The free market has almost become a myth. Therefore, the study of public economics is perhaps as important as micro and macroeconomics.

1.5 PUBLIC FINANCE THROUGH AGES

As a field of academic inquiry, public finance arose even before economics. For instance, it is said that 'more than 90 chairs in public finance had been established in Europe before the first chair was established in political economy.' (Backhaus, 2002, p. 615).

1.5.1 Voices from Antiquity

Going further back in time, we see the writings of Kautilya of India as well as Plato and Aristotle of Greece dealt with concerns that today we would consider to be in the realm of public finance. For example, the writings of Kautilya and Plato are full of public financial aspects. Kautilya's two books which were written about 2500 years ago, namely *Arthashastra* and *Neetishastra*, are regarded as highly practical. Especially, *Arthashastra* (the science of *artha* or wealth, which falls under *dandaniti*) discusses monetary and fiscal policies, taxation, welfare, labour theory, international relations, and war strategies in detail (Shamasastry, 1909). According to Kautilya, the science of government or *dandaniti* is one of the four sciences in the world, the other three being *anvikshaki*, the triple *Vedas*, and *Varta* (agriculture, cattle-breeding, and trade). Sadly, Kautilya's contributions to economic theory did not receive the recognition they deserve. Waladaeur et al. state: 'Kautilya, the great Indian philosopher-statesman, … anticipated classical economic thought …in the areas of international trade, taxation and labor theory of value. … Kautilya's philosophy was overlooked by historians of economic thought … and we believe that his contributions should receive appropriate and overdue recognition.' (Waldaeur, Zakha, and Pal, 1996, p. 101).

Plato (Plato, 350 BC) and Aristotle examined the ideas about the art of wealth acquisition and probed whether property is better managed if left in private or public hands.

1.5.2 Cameralists

In the West, the early scholars of public finance appear to be the 'Cameralists' in the 16th century. Cameralism refers to the science of administration in Germany, something like the German equivalent of the French mercantilism, which was developed also in the 18th century. Cameralists were 'consultant administrators', assisting kings, princes, and other royal notables. Unlike the modern academic consultants, they were basically administrators and sometimes holding academic positions. Their main concern was survival of the government under which they functioned. The survival was contingent upon military power, development, human capital, enterprises, etc. 'To them (*cameralists*) the object of all social theory was to show how the welfare of the state might be secured. They saw in the welfare of the state the source of all other welfare. Their key to the welfare of the state was revenue, to supply the needs of the state. Their whole social theory radiated from the central task of furnishing the state with ready means.' (Small, 2001, p. 5). 'If one were to construct a model of the Cameralist vision of the state, it would resemble a model of a business firm. The state's lands were potential sources of revenue. Forests could be harvested, game was caught, and mines could be built and worked. The ruler would also sponsor commercial enterprises. Taxes occupied a secondary position as a source of revenue. They were the last resort option for public finance and not the first source of revenue.' (Backhaus and Wagner, 2004, p. 4).

It implied that state acts as a participant within the economic order. Individuals had their property and the state had its property. The state should be able to use its property to generate the revenues required to finance its activities. Or at least those enterprise revenues should support the major portion of state activity. 'Some of the Cameralists argued that taxes should be earmarked for the support of the military, while all activities concerned with internal development should be financed from the net commercial revenues. The state enterprises were to be the primary sources of revenue for the state.' (Backhaus and Wagner, 2004, p. 5).

1.5.3 Other Theoretical Developments

Public finance primarily deals with the revenue, expenditure, and debt operations of the government and the impact of these measures. Because of its practical importance, the theoretical study of public finance and public economics has not received due attention until recently. While Ricardo, Wicksell, Edgeworth, and Pigou covered theoretical aspects, like the theory of taxation and to some extent expenditure theories, there was no continuous and concerted effort earlier. It is perhaps, Musgrave (Musgrave R. A., 1959) and later economists who explored the subject in a comprehensive way. Several other experts who made notable contributions to public finance include Hockley (1979), Bastable (1895), Goode (1970), Edgeworth (1897), Smith (1776), Wagner (1883), Schumpeter (1954), and Dalton (1971).

SUMMARY

- Public economics deals with the taxes, social welfare expenditure schemes, and fiscal policies. Public finance arrived on the scene even before economics did. We find, for instance, discussions on the subject in antiquity, in the writings of Kautilya, notably in his *Arthashastra*, as well as in the writings of Plato and Aristotle.
- An understanding of the principles of public finance can help create a more effective government and form better public choices.
- The subject of public finance/public economics basically arose from the need for government intervention in the society.
- Both the terms public finance and public economics are in circulation. The initial emphasis was on the collection and allocation of government revenues, and hence the term public finance. Public economics includes all aspects of government interventions in the economy.
- Different views exist regarding the nature and extent of government intervention required. This is a repeatedly raised question in macroeconomics. This is the realm of public finance which is of great practical value. Whether there exists a theory or not, since it touches the lives of everyone in the society, it is important to understand and evaluate the public economics.

MODEL QUESTIONS

1. Explain the importance of public finance in an economy.
2. Distinguish between public finance and public economics.
3. Explain the cameralist approach to public finance.
4. Explain different views on public finance through ages.
5. Why is it necessary to study public finance and public economics?

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