

# ***Directorate of Distance Education***

**UNIVERSITY OF JAMMU  
JAMMU**



## **SELF LEARNING MATERIAL**

*For*

## **M.A. ECONOMICS**

**Semester - IV**

**Lesson No. 1-16**

**Course No. : ECO-404**

**Unit I - IV**

*Course Co-Ordinator*

**Prof. Prakash C. Antahal**

*Teacher Incharge*

**Dr. Neelam Choudhary**

<http://www.distanceeducationju.in>

**Printed and Published on behalf of the Directorate of Distance Education,  
University of Jammu, Jammu by the Director, DDE, University of Jammu,  
Jammu.**

---

## M.A. ECONOMICS IVTH SEMESTER

---

*COURSE CONTRIBUTOR :*

**Dr. Manoj Bhatt**

*PROOF READING & COMPILATION :*

**Dr. Manoj Bhatt**

Note: The original material of this course was contributed by Dr. Manoj Bhatt, faculty, Deptt. of Economics, University of Jammu, during the session 2014-15. The course no. was 463 and was offered to the learners of the Directorate in Semester 2nd. However, with the change in syllabi during 2019-20, with modification in the existing Syllabi, the course no. has now changed to ECO-404 and is now being offered to Sem-IV learners. Therefore, Dr. Bhatt fully reviewed, edited and proof read the material and added one fresh lesson (Lesson No. 15).

© Directorate of Distance Education, University of Jammu, 2021.

- 
- # All rights reserved. No part of this work may be reproduced in any form, by mimeograph or any other means, without permission in writing from the DDE, University of Jammu.
  - # The script writer shall be responsible for the lesson/script submitted to the DDE and any plagiarism shall be his/her entire responsibility.
- 

Printed By : **Solar Printers, Gangyal, Jammu / July - 2021/ 500**

# SYLLABUS

	<b>Title : Public Economics</b>
<b>Course No: ECO-404</b>	<b>Maximum Marks : 100</b>
<b>Credits : 6</b>	<b>External Examination : 80</b>
<b>Duration of Major Examination : 3:00 hrs</b>	<b>Internal Assessment : 20</b>

## PUBLIC ECONOMICS

### Syllabus for the Examination to be held in May 2020 to May 2022

**PREAMBLE :** The role and functions of the government in an economy have been changing with the passage of time. The term 'Public Finance' has traditionally been applied to the package of those policies and operations which involve the use of tax and expenditure measures while budgetary policy is an important part to understand the basic problems of use of resources, distribution of income etc. There are vast array of physical institution-issues, level of governments etc, which raise a spectrum of issues arising from the operation of these institutions. Further, the existence of externalities, concern for adjustment in the distribution of income and wealth etc. require political processes for their solution in a manner which combines individual freedom and justice. This paper combines a thorough understanding of fiscal institution with a careful analysis of the issues which underline Budgetary policies in general and Indian experience in particular.

#### **UNIT-I: Rationale for Public Policy**

Social Contract theory of Hobbs and Locke's contribution, Market failures: Imperfections, decreasing costs and externalities; Role of government as an agent of operationalizing planning and development: Private and Public mechanism for allocation of resources, problem of allocation of resources, Voluntary exchange models of Samuelson, Musgrave and Bergson; A, Wagner theory of public expenditure, Objective of public expenditure, Tiebout hypothesis, Political economy of public economics - voting and rent seeking.

## **UNIT-II: Public Debt and Taxation**

Classical view of public debt; compensatory aspects of debt policies, burden of public debt; principles of public debt management, theory of incidence of taxation; theory of optimal taxation, allocation, efficiency and equity trade off, problems of double taxation.

## **UNIT-III: Fiscal Federalism**

Principal of multi finance: Fiscal federalism in India; Vertical and Horizontal imbalances, assignment of function and sources of revenue; constitutional position; Finance commission, Planning commission criteria of transfer of resources; resource transfer from union of states to local bodies, Centre-state financial relationship.

## **UNIT-IV: Indian Public Finance**

Indian tax system: major taxes in India : income tax, Excise custom, corporation tax, service tax, VAT and agriculture expenditure etc; base of taxes, direct or indirect taxes, reforms in direct and indirect taxes, non-tax revenue of Centre and states, Fiscal crises and fiscal sector reforms in India, Recommendation of 14th and 15th finance commission, problems associated with governance and finances of local bodies.

### **Basic Reading List**

1. Musgrave, L.A. (1959), theory of public finance, McGraw Hill-Kogakhusa, Tokyo.
2. Shoup, C.S. (1970), Public Finance, Aldine, Chicago.
3. Buchanan, J.M. (1970), The Public Finance, Richard D, Irwin, Hovewood.
4. Jha, R (1998), Modern Public Economic, Rutledge, London.

5. Atkinson, A.B. and J.E. Siglitz (1980) Lecture on public Economic.
6. Musgrave, R.A. and C.S. Shoup (Eds.) 1970, Readings in the Economics of taxation, George Allen and Unwin, London.
7. Barman, K. (1986) Public debt management in India, Uppal Publishing House, New Delhi.
8. Chelliah, Raj J, et.al (1981), Trends and issues in India's Federal finance, national institute of Public Finances and Policy, New Delhi.
9. Bhargave, P.K (1982), Centre state Resource transfer in India, The academic press, Furgao.
10. Bhargave, R.N (1967), The theory and working of Union Finance in India, Chaitanya Publishing House, Allahabad.
11. Borker, V.V. (1971), Income tax reforms in India, Popular Prakashan, Bombay.
12. Datt, R. (Ed.) 2001, Second Generation Economic Reforms in India, Deep and Deep Publications, New Delhi.
13. Bagchi, A. (ed) (2005), Readings in Public Finance, Oxford Press, New Delhi.
14. Myles, Gareth (2007), Intermediate Public Economics, MIT Press, Cambridge, USA.

**CONTENTS**  
**PUBLIC ECONOMICS**

	Title	Page
<b>Unit-I</b>	<b>RATIONALE FOR PUBLIC POLICY</b>	<b>1-42</b>
<b>Lesson 1</b>	<b>SOCIAL CONTRACT THEORY OF HOBBS AND LOCKE'S</b>	<b>1</b>
<b>Lesson 2</b>	<b>ROLE OF GOVERNMENT AS AN AGENT OF PLANNING AND DEVELOPMENT</b>	<b>22</b>
<b>Lesson 3</b>	<b>SAMUELSON'S OR PURE THEORY OF EXPENDITURE</b>	<b>29</b>
<b>Lesson 4</b>	<b>POLITICAL ECONOMY OF PUBLIC ECONOMICS</b>	<b>36</b>
<b>Unit-II</b>	<b>PUBLIC DEBT AND TAXATION</b>	<b>43-84</b>
<b>Lesson 5</b>	<b>CLASSICAL ECONOMISTS ON PUBLIC DEBT</b>	<b>43</b>
<b>Lesson 6</b>	<b>BURDEN OF PUBLIC DEBT</b>	<b>52</b>
<b>Lesson 7</b>	<b>DEAD WEIGHT LOSS</b>	<b>59</b>
<b>Lesson 8</b>	<b>INCIDENCE OF TAXATION</b>	<b>77</b>
<b>Unit-III</b>	<b>FISCAL FEDERALISM</b>	<b>85-126</b>
<b>Lesson 9</b>	<b>FISCAL FEDERALISM</b>	<b>85</b>
<b>Lesson 10</b>	<b>PROBLEM OF FINANCIAL IMBALANCE</b>	<b>93</b>
<b>Lesson 11</b>	<b>FINANCE COMMISSION</b>	<b>105</b>
<b>Lesson 12</b>	<b>CENTRE AND STATE FINANCIAL RELATIONS</b>	<b>119</b>
<b>Unit-IV</b>	<b>INDIAN PUBLIC FINANCE</b>	<b>127-160</b>
<b>Lesson 13</b>	<b>SALIENT FEATURES OF INDIAN TAX SYSTEM</b>	<b>127</b>
<b>Lesson 14</b>	<b>TAX REFORMS SINCE 1991</b>	<b>142</b>
<b>Lesson 15</b>	<b>THIRTEEN FINANCE COMMISSION</b>	<b>148</b>
<b>Lesson 16</b>	<b>A REVIEW OF INDIAN TAX COMMITTEES OVER THE PAST FEW YEARS</b>	<b>158</b>