

## Paper 21: PUBLIC ECONOMICS

### Course Description

Public economics is the study of government policy from the points of view of economic efficiency and equity. The paper deals with the nature of government intervention and its implications for allocation, distribution and stabilization. Inherently, this study involves a formal analysis of government taxation and expenditures. The subject encompasses a host of topics including public goods, market failures and externalities. The paper is divided into two sections, one dealing with the theory of public economics and the other with the Indian public finances.

### Course Outline

#### 1. Public Economic Theory

- a. Fiscal functions: an overview.
- b. Public Goods: definition, models of efficient allocation, pure and impure public goods, free riding.
- c. Externalities: the problem and its solutions, taxes versus regulation, property rights, the Coase theorem.
- d. Taxation: its economic effects; dead weight loss and distortion, efficiency and equity considerations, tax incidence, optimal taxation.

#### 2. Indian Public Finances

- a. Tax System: structure and reforms
- b. Budget, deficits and public debt
- c. Fiscal federalism in India

#### Readings:

1. Joseph E. Stiglitz, *Economics of the Public Sector*, W.W. Norton & Company, 3<sup>rd</sup> edition, 2000.
2. R.A. Musgrave and P.B. Musgrave, *Public Finance in Theory & Practice*, McGraw Hill Publications, 5<sup>th</sup> edition, 1989.
3. John Cullis and Philip Jones, *Public Finance and Public Choice*, Oxford University Press, 1<sup>st</sup> edition, 1998.
4. Harvey Rosen, *Public Finance*, McGraw Hill Publications, 7<sup>th</sup> edition, 2005.
5. Mahesh Purohit, *Value Added Tax: Experiences of India and Other Countries*, 2007.
6. Kaushik Basu and A. Maertens (ed.), *The Oxford Companion to Economics in India*, Oxford University Press, 2007.
7. M.M. Sury, *Government Budgeting in India*, 1990.
8. M. Govinda Rao, *Changing Contours of Federal Fiscal Arrangements in India*, Amaresh Bagchi (ed.), *Readings in Public Finance*, Oxford University Press, 2005.
9. Paul Samuelson, 1955, "Diagrammatic Exposition of a theory of Public Expenditure", *Review of Economics and Statistics*, Volume 37.
10. Shankar Acharya, 2005, "Thirty Years of Tax Reform in India", *Economic and Political Weekly*, May, pp. 14-20.

11. Rangarajan and D.K. Srivastava, 2005, "Fiscal Deficit and Government Debt: Implications for Growth and Stabilization", *Economic and Political Weekly*, July 2-8.
12. M. Govinda Rao, 2011, "Goods and Services Tax: A Gorilla, Chimpanzee or a Genius like Primates?", *Economic and Political Weekly*, February, pp. 12-18.
13. Report of the 13<sup>th</sup> Finance Commission, 2010-15.
14. *Economic Survey*, Government of India (Latest).
15. *State Finances: A Study of Budgets*, Reserve Bank of India (Latest).

**DEPARTMENT OF ECONOMICS  
DELHI SCHOOL OF ECONOMICS  
UNIVERSITY OF DELHI**

**Minutes of Meeting**

**Subject :** B.A. (Hons.) Economics, Fifth Semester (2013)  
**Course :** 17 - Public Economics  
**Date of Meeting :** Tuesday, 23<sup>rd</sup> July, 2013 11.30 A.M.  
**Venue :** Department of Economics, Delhi School of Economics,  
University of Delhi, Delhi – 110 007  
**Chair :** Prof. Pulin B. Nayak

**Attended by:**

- 1) Deepti Taneja—DCAC
- 2) Deepika Srivastava—LSR College
- 3) Devendra Kumar—JDM
- 4) Divya Gupta—Daulat Ram
- 5) Uma—Lakshmi Bai
- 6) Gurleen Kaur—Sri Guru Gobind Singh College of Commerce
- 7) Daisy Sales—JMC
- 8) Khirod Km. Chaudhary—Deshbandhu College
- 9) A. Sunil Dharam--Motilal Nehru College (Morning)
- 10) Surajit Deb—RLA College (E)
- 11) Supriti Mishra—Shyam Lal College(Morning)
- 12) Nalini Panda—IP College
- 13) Rashmi Chaudhary—Kalindi College
- 14) Anamitra Roy Choudhary—St. Stephen's College
- 15) Avni Gupta—Miranda House
- 16) Mridula Bhaita—Satyawati College (Morning)
- 17) Iti Tripathi—Shivaji College

The Following Points were decided upon:

- 1) The Question Paper would have the following structure:
  - Part A would have a weightage of 45 marks, where students will have to attempt any 3 out of given 5 questions
  - Part B would have a weightage of 30 marks, where students will have to attempt any 2 out of given 4 questions

For the 100 marks paper, there would be

- 75 marks : University Exam
- 25 marks : Internal Assessment (*5 marks are for attendance and 20 marks for two class tests of 10 marks each*)

**Based on the Suggestions, the Reading List for Semester V (2013: July to December) is as follows:**

**Part I: PUBLIC ECONOMICS THEORY**

I.1 Fiscal Functions: An Overview

- 1) R.A. Musgrave and P.B. Musgrave, *Public Finance in Theory & Practice*, 5<sup>th</sup> edition, Chapter 1

I.2 Public Goods: Definition, Models of Efficient Allocation, Pure and Impure Public Goods, Free Riding

- 1) John Cullis and Philip Jones (1998), *Public Finance and Public Choice*, Chapter 3 (Sections: 3.1 to 3.5.2)
- 2) Joseph E. Stiglitz, *Economics of the Public Sector*, 3<sup>rd</sup> Edition, Chapter 6, Pp. 127-141
- 3) R.A. Musgrave and P.B. Musgrave, *Public Finance in Theory & Practice*, 5<sup>th</sup> edition, Chapter 5, Sections A—C (Pp. 59-67) [For Analysing Paul Samuelson's Diagrammatic Exposition of a Theory of Public Good]

I.3 Externalities: The Problem and its Solutions, Taxes versus Regulation, Property Rights, the Coase Theorem

- 1) Harvey Rosen (2005), *Public Finance*, Chapter 5
- 2) P. Richard G. Layard, Alan Arthur Walters, *Microeconomic Theory*, 1987, Chapter 6 [**For Teachers**]
- 3) Ronald H. Coase (1960), "The Problem of Social Cost" in *Journal of Law and Economics* 3 (1), Pp. 1–44 [**For Teachers**]

I.4 Taxation: Its Economic Effects; Dead Weight Loss and Distortion, Efficiency and Equity Considerations, Tax Incidence, Optimal Taxation

1. R.A. Musgrave and P.B. Musgrave, *Public Finance in Theory & Practice* 5<sup>th</sup> edition, Chapter 13, Chapter 14 (pp. 234—242), Chapter 15 (pp. 249—257)
2. Joseph E. Stiglitz, *Economics of the Public Sector*, 3<sup>rd</sup> Edition, Chapter 19 (Pp. 518-537—till Fig. 19.13), Chapter 20 (Pp. 550 to 562)

## **Part II: INDIAN PUBLIC FINANCES**

### II.1 Tax System: Structure and Reforms

- 1) M. Govind Rao (2005), “*Tax Reform System in India: Achievements and Challenges Ahead*”, Journal of Asian Economics, Vol. 16, Issue 6, Pp. 993-1011
- 2) Mahesh Purohit (2007), “*Value Added Tax: Experiences of India and Other Countries*”, Chapter 1
- 3) Deepa S Vaidya, K Kanagasabapathy (2013), “*Reform of Indirect Taxes: Hurdles before the GST*”, Economic and Political Weekly, June 29, 2013, Pp. 79-81
- 4) J V M Sarma, V Bhaskar (2012), “A Road Map for Implementing the Goods and Services Tax”, Economic and Political Weekly, August 4, 2012, Pp. 68-75
- 5) M. Govind Rao and Kavita Rao (2009), “*Direct Tax Code: Need for greater reflection*”, Economic and Political Weekly, September 12, 2009, Pp. 35-38

### II.2 Budget, Deficits and Public Debt

- 1) M.M. Sury (1990), *Government Budgeting in India*, Chapter 2
- 2) Raja J. Chelliah (1993): *The Meaning and Significance of the Fiscal Deficit*, in Amaresh Bagchi (ed): *Readings in Public Finance*, OUP
- 3) Rangarajan and D.K. Srivastava, “*Fiscal Deficit and Government Debt: Implications for Growth and Stabilization*”, Economic and Political Weekly, July 2, 2005, pp 2919-2924 and 2931-2933 (Only Sections 1,2,3 and Policy Options)

### II.3 Fiscal Federalism in India

- 1) M. Govinda Rao (2005), “Changing Contours of Federal Fiscal Arrangements in India”, Amaresh Bagchi (ed), “*Readings in Public Finance*”
- 2) Report of the 13<sup>th</sup> Finance Commission, 2010-15: Ch 6 (Union Finances: Assessment of Revenue and Expenditure), Ch 7 (State Finances: Assessment of Revenue and Expenditure and Structural Reforms) and Ch 8 (Sharing of Union Tax Revenues) [Available at <http://fincomindia.nic.in/ShowContentOne.aspx?id=28&Section=1>]
- 3) Report of the 14<sup>th</sup> Finance Commission: *Terms of Reference* (available at <http://fincomindia.nic.in/ShowPDFContent.aspx>)
- 4) V. Bhaskar, “*Issues before the Fourteenth Finance Commission*”, Economic and Political Weekly, April 27, 2013, Pp. 31-36