

<b>Course Title</b>	<b>Public Finance</b>
Course Code	GPA-406
Pre-Requisite	Eco-101: Principles of Microeconomics
Degree Program (BS / MS / PhD)	BS

### **Course Objectives**

This course is a treatment of economic theory and applications in the field of public finance. The course includes the study of market failure, the provision of public goods, benefit-cost analysis, public expenditures, bureaucracies, and the principles of government finance.

### **Learning Outcomes**

Upon successful completion of this course the student will be able to

- Provide arguments for the case of government intervention in a modern economy. Identify both market failure and government failure and explain the causes of each.
- Distinguish between public goods, goods produced by the public sector and goods provided by the public sector.
- Identify externalities, their impacts, and evaluate the relative merits of various public sector interventions designed to resolve the associated issues.
- Explain and critically evaluate the concepts of equity and efficiency as a basis for decision making in taxation and public expenditure.
- Explain the planning and budgeting process
- Distinguish between tax avoidance and tax evasion and articulate the considerations relevant to the design of public policy to minimize tax evasion
- Understand the issues related to public debt and how debt can be good or bad for the economy.

### **Course Contents**

<b>Week</b>	<b>Topic</b>
1	Introduction to Public Finance

	<ul style="list-style-type: none"> <li>○ Individuals and Government,</li> <li>○ Individuals, Society, and Government</li> <li>○ Governments and Political Institutions</li> <li>○ The Allocation of Resources between Government and Private Use</li> </ul>
2	<p>Efficiency, Markets, and Governments</p> <ul style="list-style-type: none"> <li>○ Positive and Normative Economics</li> <li>○ Normative Evaluation of Resource Use: The Efficiency Criterion</li> <li>○ Markets, Prices, and Efficiency Conditions</li> <li>○ Market Failure: A Preview of the Basis for Government Activity</li> <li>○ Equity Versus Efficiency</li> <li>○ Positive Analysis Trade-off between Equity and Efficiency</li> </ul>
3	<p>Efficiency, Equity and Externalities</p> <ul style="list-style-type: none"> <li>○ Externalities: A Classification and Some Examples</li> <li>○ Internalization of Externalities</li> <li>○ Property Rights to Resource Use and Internalization of Externalities: The Coase Theorem</li> </ul>
4	<p>Public Goods</p> <ul style="list-style-type: none"> <li>○ Provision of Private Goods and Public Goods: Markets and Government</li> <li>○ The Demand for a Pure Public Good</li> <li>○ Efficient Output of a Pure Public Good</li> <li>○ The Free-Rider Problem</li> </ul>
5	<p>Public Choice and the Political Process</p> <ul style="list-style-type: none"> <li>○ The Supply of Public Goods through Political Institutions: The Concept of Political Equilibrium</li> <li>○ A Model of Political Equilibrium under Majority Rule</li> <li>○ Uniqueness and Cycling of Outcomes under Majority Rule</li> </ul>
6	<p>Public Choice and the Political Process</p> <ul style="list-style-type: none"> <li>○ The Political Process</li> <li>○ Political Parties and Political Equilibrium</li> <li>○ Voting on More than One Issue at a Time: Logrolling</li> </ul>

7	<p>Government Expenditures</p> <ul style="list-style-type: none"> <li>○ Cost-Benefit Analysis and Government Investments</li> <li>○ The Budget Process</li> <li>○ Economic Analysis for the Budget Process: Achieving the Least-Cost</li> <li>○ Means of Accomplishing an Authorized Objective</li> <li>○ Cost-Benefit Analysis</li> <li>○ Analysis of Government Investments: Cost-Benefit analysis in Practice</li> </ul>
8	<p>Government Expenditures</p> <ul style="list-style-type: none"> <li>○ Cost-Benefit Analysis and Government Investments</li> <li>○ The Budget Process</li> <li>○ Economic Analysis for the Budget Process: Achieving the Least-Cost</li> <li>○ Means of Accomplishing an Authorized Objective</li> <li>○ Cost-Benefit Analysis</li> <li>○ Analysis of Government Investments: Cost-Benefit analysis in Practice</li> </ul>
9	<b>Midterm</b>
10	<p>Taxation, Prices, Efficiency, and the Distribution of Income</p> <ul style="list-style-type: none"> <li>○ Lump-Sum Taxes: A Benchmark Standard for Comparison</li> <li>○ The Impact of Taxes on Market Prices and Efficiency</li> <li>○ Internalize Externalities</li> <li>○ Further Analysis of Tax Incidence</li> <li>○ General Equilibrium Analysis of the Excess Burden and Incidence of Taxes</li> <li>○ Taxes, Government Expenditures, and the Distribution of Income</li> </ul>
11	<p>Financing Government Expenditures</p> <ul style="list-style-type: none"> <li>○ Introduction to Government Finance</li> <li>○ Purpose and Consequences of Government Finance</li> <li>○ Principles of Taxation</li> </ul>
12	Financing Government Expenditures

	<ul style="list-style-type: none"> <li>○ How Should the Burden of Government Finance Be Distributed?</li> <li>○ Criteria for Evaluating Alternative Methods of Government Finance</li> <li>○ Alternatives to Taxation</li> </ul>
13	Government budget <ul style="list-style-type: none"> <li>○ Midterm budget, federal budget</li> <li>○ Provincial and local budget</li> </ul>
14	Fiscal Federalism in Pakistan and NFC award
15	Debt <ul style="list-style-type: none"> <li>○ Types of debt</li> <li>○ Debt sustainability</li> <li>○ Debt and growth</li> </ul>
16	Tax Structure of Pakistan <ul style="list-style-type: none"> <li>○ Taxation on personal income, corporate income, consumption, sales, property, wealth and estates</li> </ul>
17	<b>Buffer Week</b>
18	<b>Final Examination</b>

#### **Text Books:**

- Kennedy, M. M. J. (2012). *Public Finance*. PHI Learning Pvt. Ltd.
- Hyman, D. N. (2014). *Public finance: A contemporary application of theory to policy*. Cengage Learning.
- Stiglitz, J. E., *Economics of Public Sector*. 4<sup>th</sup> Edition