

**Course Title: Public Finance**

**Course Code: Econ3122**

***Contents***

***1. Nature and Scope of Public Finance (3Hrs)***

1.1. Definition of Public Finance

1.2. Scope of Public Finance

1.3. Public Finance and Private Finance

1.4. Significance of Public Finance

1.4.1. Economic Significance

1.4.2. Social Significance

1.5. Economic Rationale of a Modern State

**Chapter Two**

***2. Welfare Economics and Public Finance (5Hrs)***

2.1. The Efficiency of Competitive Markets

2.2. A Brief Review of Welfare Economics

2.3. Perfect Competition and Pareto Optimality

2.4. Perfect Competition and General Economic Efficiency

2.5. Market Failure, Externalities and Public Goods

2.5.1. Externalities and market failure

2.5.2. Public goods and market failure

**Chapter Three**

***3. Public Revenue (10Hrs)***

3.1. Sources of Public Income

3.1.1. Income based on compulsion

3.1.2. Income by way of voluntary payment

- 3.1.3. Income: partly compulsory, partly voluntary
- 3.2. The Ratio, Bouncy and Elasticity of Taxation
  - 3.2.1. Tax ratio
  - 3.2.2. The base of a tax
  - 3.2.3. Bouncy and elasticity of a tax
- 3.3. Adam Smith's Canon of Taxation
- 3.4. Features of Sound Taxation
  - 3.4.1. Equity in the distribution of tax burden
  - 3.4.2. Productivity
  - 3.4.3. Rights of taxpayers
  - 3.4.4. The tax system and the economy
- 3.5. The Benefit Principle of Taxation
  - 3.5.1. Merits of benefit principle
  - 3.5.2. Demerits of benefit principle
- 3.6. Ability Principle of Taxation
  - 3.6.1. Justification of ability approach
  - 3.6.2. Index of ability to pay
  - 3.6.3. Ability to pay and equality of sacrifice
- 3.7. Rate Schedules of Taxation
- 3.8. Direct and Indirect Taxes
  - 3.8.1. Direct and indirect taxes: a comparison
  - 3.8.2. The case of direct taxes
  - 3.8.3. The case of indirect taxes
- 3.9. Superiority of Indirect Taxes Over Direct Taxes
- 3.10. Impact, Shifting and Incidence of Tax

- 3.10.1 Theories of tax shifting
- 3.10.2. Forward and backward shifting
- 3.10.3. Factors influencing shifting and incidence

## **Chapter Four**

### **4. *Public Expenditure (9Hrs)***

- 4.1. Causes of Growth in Public expenditure
- 4.2. Public expenditure: Canons, Theories and Accountability
  - 4.2.1. Canon of public expenditure
  - 4.2.2. Theories of public expenditure
  - 4.2.3. Control and Accountability of Public Expenditure
- 4.3. Effects of Public Expenditure of Production and Distribution
  - 4.3.1. Effects on production and employment
  - 4.3.2. Effects on distribution and income
- 4.4. Public Expenditure and Control of Inflation
- 4.5. Content of Development Expenditure

## **Chapter Five**

### **5. *Public Budget (9Hrs)***

- 5.1. Meaning of Public Budget
- 5.2. Importance of Public Budget
- 5.3. Principles of Budgeting
- 5.4. Objectives of Budgeting
- 5.5. Types of Budgeting
- 5.6. Procedures of Budgeting
- 5.7. Theories of Government Budgeting
- 5.8. Performance and Program Budgeting system (PPBS)

- 5.9. Zero-Base Budgeting
- 5.10. Budget as an Instrument of Economic Policy
- 5.11. Economic Role of the government (Ethiopian Case)
- 5.12. Structure of government Budget
- 5.13. Government Expenditure Budget
- 5.14. Budgetary Deficit Financing

#### **6. *PUBLIC DEBT(5Hrs)***

- 6.1 Nature and Kinds of Public Debt
- 6.2 Effects of Public Debt
- 6.3 Burden of Public Debt
- 6.4 Redemption of Public Debt
- 6.5 Public Debt in a Developing Economy

#### **7. *DEFICIT FINANCING (5Hrs)***

- 7.1 Meaning of Deficit Financing
- 7.2 Objectives of Deficit Financing
- 7.3 Effects of Deficit Financing
- 7.4 Limits to Deficit Financing

#### **\*8. *FISCAL POLICY(2Hrs)***

- 8.1 Meaning of Fiscal Policy
- 8.2 Objectives of Fiscal Policy
- 8.3 Compensatory Fiscal Policy
- 8.4 Discretionary Fiscal Policy

#### **\*9. *FEDERAL-STATE FINANCIAL RELATIONS IN ETHIOPIA (3Hrs)***

- 9.1 Provisions under the Constitution of Ethiopia
- 9.2 Federal Power of Taxation in Ethiopia
- 9.3 State Power of Taxation in Ethiopia
- 9.4 Concurrent Power of Taxation in Ethiopia

#### **Module Delivery Methods**

The delivery method shall be student-centered. Students are highly expected to participate in class works at the middle and end of each session and in group discussions inside and outside of the class. Specifically the course will be delivered through the following methods:

- Lecture Method

- In-class problem solving
- Group Work
- Assignment

### Assessment Methods

Student evaluation in this module consist both formative and summative assessments including quizzes, test and final exam. Marks will be allocated according to the following grading schedule.

Assessment method	Weight
Assignment (Indiv/group)	20%
Quizzes/Tests( <b>Max of 10 % each</b> )	30%
Final Exam	50 %
<b>Total</b>	100%

### References

- Atkinson, Anthony B. and Joseph E. Stiglitz. 1980. Lecture on public economics McGraw-Hill books Co-;
- Bailey, Stephen J. 1995. Public sector Economics: Theory, policy and practice Macmillan Press Ltd.' London.
- Baker, Samuel & Catherine Elliot (eds.) 1990. Readings in public sector Economics . D.C. Health and Co: Lexington.
- Boadway, Robin W. 1979. Public sector Economics. Wintrop Publisher: Cambridge.
- Brown .C.V. and P.M. Jackson, 1990. Public sector Economics, 4th edition. Blackwell: Oxford.
- Browning ,E.K. and J.M. Browning ,1987 Public finance and the price system 3rd Edition . Macmillan publishing Co.: New York.
- Cullis John ,& Philip Jones 1998. Public finance and public choice .2<sup>nd</sup> edition. Oxford University Press; Oxford.
- Easterly ,William , et al (eds.), 1994. Public sector Deficits and macroeconomic performance, Oxford University Press : Oxford. Jha Raghbendra ,1998 Modern Public economics Rout ledge : London
- Musgrave ,R.A and Peggy Musgrave ,1982. Public Finance in theory and practice, 3rd edition McGraw-Hill: London.
- Stiglitz, J.E. 2000. Economics of the public sector ,3<sup>rd</sup> edition .W.W. Norton & co.: New York .
- Any other relevant books on the course may serve the purpose.

### *Areas for term paper\*\**

1. Arguments for and against state intervention in the economy
2. Fiscal federalism

3. Powers of state and federal governments on tax
4. Types of tax in Ethiopia
5. Means of deficit financing in Ethiopia
6. Fiscal policy:
7. Value added tax(VAT):
8. A brief review of government budget in Ethiopia(19..
9. Domestic versus external sources of revenue of the government of Ethiopia
10. Impacts of deficit financing on key macroeconomic variables: inflation, unemployment, private investment, economic growth
11. Capital versus recurrent expenditures in Ethiopia
12. Theories of public expenditure
13. Theories of public budgeting
14. Federal versus state power of taxation in Ethiopia
15. Fiscal policy and its implementation in Ethiopia
16. Structure of public debt in Ethiopia
17. Effects of public debt on the economy

***\*\* In each chapter students are expected to prepare and present a term paper on the above selected issues.***