

GOA UNIVERSITY SYLLABUS

**RAJHAUNS**

A TEXTBOOK OF

# ECONOMICS

## PUBLIC FINANCE

SEMESTER IV  
**B.Com**

- Dr. Deepali Karmali Churi
- Ms P S Devi

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**ECONOMY  
EDITION**

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FIRST EDITION : 2019

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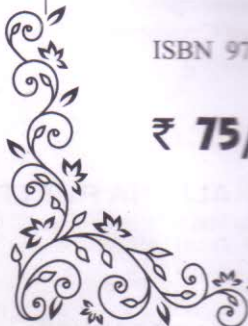
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# UNIT 1

## Introduction to Public Finance

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*In this chapter we shall learn*

- *The meaning and scope of Public Finance*
- *The concepts of Private and Public Finance*
- *The Principle of Maximum Social Advantage*
- *Fiscal Functions*

### Introduction

In a perfect world, the market mechanism would efficiently allocate economic resources to the most productive and desirable activities, leading to full employment and maximum social welfare. But we live in an imperfect world. Competition is rarely perfect and the markets may not be bestsuited to decide what will lead to the greatest good of the greatest number. Private enterprise is guided by the profit motive. This may result in misallocation of resources, market failures and greater inequalities. Hence it is necessary for the government to intervene in economic activities, to regulate and direct the course of development in the country and to shape economic policy to ensure social justice.

The laissez-faire policy advocated minimum interference of the government in economic activities. The traditional role of the government was to maintain law and order and to protect the country from foreign aggression. However unbridled capitalism can bring about violent fluctuations and disruptions in the economy and hence today the economic role of the government in maintaining stability and bringing about desirable outcomes through a system of incentives is largely acknowledged.

It is through public finance and the fiscal policy that the government fulfils the objectives of its economic policy. These objectives may differ from country to country. Socialist countries may aim for the equitable distribution of income and wealth and fiscal tools will be employed to transfer income from the rich to the poor. For developing nations, it is essential to mobilise resources for the promotion of developmental activities which the government achieves through taxes and subsidies. On the other hand, for the developed nations, fiscal policy is expected to maintain stability and to prevent the ill-effects of slumps and booms while controlling inflationary and deflationary tendencies.