Mekedela Amba University

College of Business and Economics

Department of Economics

Course outlines

General information

Course Name: Public Finance **Course Code:** Econ 3122 **Pre requisites**: Econ 1032

Program: Regular Program **Course Level**: Undergraduate /3rd year/ **Credit Hour**: 3 hrs. per week

Course Instructors:

1. Habtamu Kefelegn **Office:** 3rd floor 02 Academic Building **Email:** habfuture2006@gmail.com,

Course Description:

Public finance deals with the financial aspects of the government and the possible role of the state in a market economy through the use of lecture, directed reading and term paper (seminar) preparation and presentation. The general objective of the course is to acquaint students with various concepts, theories and realities of public finance such as the rationale for state in the economy, the sources and types of revenue for the public, taxing system and types of taxes, characteristics of an efficient taxing system, criteria for evaluating public expenditure, theories of public expenditure and its impact on the economy, significance , objective and types of public budget, deficit financing and its various means, and some relevant public finance issues in the Ethiopian context.

Course Objective

- To enable students to understand and assess policy issues in public finance.
- To make students aware of the different schools of thought in public finance.
- To enable students to understand and to assess 'cost benefit' analyses of public expenditure programmes.

Course 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
   - 1.5. Economic Rationale of a Modern State
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

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

3.1. Sources of Public Income

3.2. The Ratio, Bouncy and Elasticity of Taxation

3.3. Adam Smith's Canon of Taxation

3.4. Features of Sound Taxation

3.5. The Benefit Principle of Taxation

3.6. Ability Principle of Taxation

3.7. Rate Schedules of Taxation

3.8. Direct and Indirect Taxes

3.9. Superiority of Indirect Taxes Over Direct Taxes

Impact, Shifting and Incidence of Tax

4. Public Expenditure (9Hrs)

4.1. Causes of Growth in Public expenditure

4.2. Public expenditure: Canons, Theories and Accountability

4.3. Effects of Public Expenditure of Production and Distribution

4.4. Public Expenditure and Control of Inflation

4.5. Content of Development Expenditure

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)

6.10. Nature and Kinds of Public Debt

6.11. Effects of Public Debt

6.12. Burden of Public Debt

6.13. Redemption of Public Debt

6.14. Public Debt in a Developing Economy

7. Deficit Financing (5Hrs)

7.10. Meaning of Deficit Financing

7.11. Objectives of Deficit Financing

7.12. Effects of Deficit Financing

7.13. Limits to Deficit Financing

8. Fiscal Policy(2Hrs)

8.10. Meaning of Fiscal Policy

8.11. Objectives of Fiscal Policy

8.12. Compensatory Fiscal Policy

8.13. Discretionary Fiscal Policy

9. Federal-State Financial Relations In Ethiopia (3Hrs)

9.10. Provisions under the Constitution of Ethiopia

9.11. Federal Power of Taxation in Ethiopia

9.12. State Power of Taxation in Ethiopia

9.13. Concurrent Power of Taxation in Ethiopia

Course Policy

- Late coming is not allowed and no student is allowed to enter after class has started.
- Duplication of assignments is strictly forbidden; it entails serious penalty.
- Assignments are required to be submitted before or on the deadline.
- Cheating during exam sessions results in a minimum of "F "grade while cheating in quizzes and tests is subjected to a zero mark. All cheating cases will be reported to the department for further considerations.
- Students should switch off their cell phones while they are in class and must keep their cell phones switched off during all kinds of exam sessions.
- Students must attend 80% of the class for the course. Failure to attend 80% of the class will not allow the student to sit for the final exam.
- Missing a quiz without convincing evidences will earn the students a grade of zero marks in that specific quiz

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.

Asessment method	Weight
Assignment (Indiv/group)	20%
Quizzes/Tests**(Max of 10 % each)**	30%
Final Exam	50%
Total	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.Pulic sector Economics, 4th edition. Blackwell: Oxford.
- Browning ,E.K. and J.M. Browning ,1987 Public finance and the price system 3red Edition . Macmillan publishing Co.: New York.
- Cullis John ,& Philip Jones 1998. Public finance and public choice .2nd 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 ,3rd edition .W.W. Norton & co.: New York .
- Deviwdi. Microeconomics: Theory and Applications. 4th edition.

***Any other relevant books on the course may serve the purpose.**

***** Students are expected to prepare and present a term paper on the following selected issues.***

*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
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