

Overview of Public Finance

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Key concepts, objectives, institutions, and tools used by governments to manage economic resources.

1. Definition & Scope

- **Public Finance:** The study of how governments raise revenue (taxes, fees, borrowing) and allocate expenditures to achieve economic and social objectives.
 - **Core Areas**
 - **Revenue Generation** (taxation, non-tax receipts, public debt)
 - **Public Expenditure** (goods & services, transfers, subsidies)
 - **Fiscal Policy** (use of revenue & spending to influence macro-economic outcomes)
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2. Objectives of Public Finance

Objective	Description	Typical Policy Instruments
Economic Efficiency	Allocate resources where they yield the highest net social benefit.	Corrective taxes, subsidies, public provision of merit goods.
Equity (Distribution)	Ensure a fair distribution of income and wealth.	Progressive taxation, social transfers, universal basic services.
Economic Stability	Smooth business-cycle fluctuations, control inflation, maintain full employment.	Counter-cyclical fiscal policy (stimulus or austerity), automatic stabilizers.
Growth & Development	Promote long-term expansion of productive capacity.	Infrastructure investment, human-capital spending, R&D incentives.
Public Goods Provision	Supply goods/services that are non-excludable and non-rivalrous.	Direct government production or financing (e.g., national defense, street lighting).

3. Major Institutional Players

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Level	Primary Bodies	Main Functions
Central/National	Ministry of Finance / Treasury, Central Bank (often separate), Legislative Budget Office	Formulate fiscal policy, draft budgets, manage sovereign debt, collect national taxes.
Sub-national (State/Provincial)	State finance ministries, revenue agencies	Collect regional taxes, allocate spending to local services (education, health).
Local Governments	Municipal councils, city treasuries	Provide community services, collect property taxes, manage local borrowing.
Independent Agencies	Fiscal councils, audit offices, debt management offices	Evaluate fiscal sustainability, ensure transparency, oversee public accounts.

4. Revenue Sources

1. Taxation

- *Direct taxes*: income tax, corporate tax, wealth tax, property tax.
- *Indirect taxes*: value-added tax (VAT/GST), excise duties, customs tariffs.

2. Non-Tax Receipts

- Fees & charges (licensing, user fees), dividends from state-owned enterprises, royalties.

3. Public Borrowing

- Domestic bonds (Treasury bills, government bonds), foreign debt, multilateral loans.

4. Other Sources

- Grants and transfers from higher-level governments or international institutions.
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5. Expenditure Categories

Category	Examples	Typical Funding
General Government Services	Defense, public order, judiciary	Primarily tax-funded

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Category	Examples	Typical Funding
Social Protection	Pensions, unemployment benefits, welfare	Tax + social security contributions
Health & Education	Hospitals, schools, research grants	Tax + earmarked levies
Infrastructure	Roads, bridges, ports, ICT networks	Tax, bonds, public-private partnerships
Interest Payments	Servicing public debt	Borrowing proceeds, dedicated taxes
Subsidies & Transfers	Agricultural subsidies, energy price caps	Budget allocations, targeted taxes

6. Fiscal Policy Tools

1. **Budget