

1.1 What is Public Finance: ?

Public finance: is a science of managing income and expenditure of all governmental bodies in a country. It is the management of spending and raising of funds by public authorities. So public finance deals with the provisions, custody and disbursement of resources needed for the conduct of public or governmental functions. It is the bridge between state economics and state policies.

1.2 Explain different Sources of Public Finance

Public finance has two major sources –

- ➔ Tax revenues, and
- ➔ Non-Tax revenues.

Tax revenues: Taxes are the first and foremost sources of public revenue. Taxes are compulsory payments to government without expecting direct benefits by the taxpayers. Taxes collected by the govt. are used to provide common benefits to all mostly in form of public welfare services.

Non-tax revenues: Any revenue except tax earned by the govt. is called non-tax revenue. The major sources of non-tax revenues are listed below:

- ▣ Fees,
- ▣ Fines and penalties,
- ▣ Surplus from public enterprise,
- ▣ Special assessment of betterment levy,
- ▣ Grants and gifts,
- ▣ Deficits financing etc.

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1.3 Differences between Public Finance and Private finance.



Public Finance	Private Finance
(1) It is a <u>government</u> finance.	(1) It is a <u>non-government</u> finance.
(2) It depends on national expenditure.	(2) It depends on individual's income.
(3) It moves expense to income.	(3) It moves income to expense.
(4) It must cover one fiscal year.	(4) It has no specific time period.
(5) It is always a <u>macro</u> finance.	(5) It is always a micro finance.
(6) It has foreign aids.	(6) It has no foreign aids.
(7) It has many internal borrowings.	(7) It has not internal borrowings.



1.4 State the Importance of Public Finance

- ▣ Public finance is important for protection to infant industries.
- ▣ Public finance is very important for planned economic development.
- ▣ Public finance is important for regulating consumption habits.
- ▣ Public finance is important for reducing inequalities of social economy.
- ▣ Public finance is important for maintaining the balance of trade.
- ▣ Public finance is important for industrial development.
- ▣ Public finance is important for economic development of a country.