

7. Public Finance

Unit 4 - Fiscal Policy



- During Inflation - Contractionary Fiscal Policy
- During Recession - Expansionary Fiscal Policy.

- During Inflation - More tax
- During Recession - Less tax.

Reasons of Market Failure

Monopoly

- firms that have power are price makers and therefore, can change price that gives them positive economic profits. Excessive market power causes producer to produce and sell less output than would be produced in competitive market.

- Market power can render markets to be inefficient cuz it keeps prices higher and output lower.

Externalities

Production

Positive	Negative
A positive production externality initiated in production that confers external benefits on others may be received in production or in consumption.	A negative externality initiated in production which imposes an external cost on others maybe received by another in consumption or in production.

Types

Consumption

Positive	Negative
A positive consumption externality initiated in consumption that confers external benefits on that others maybe received in consumption or in production.	A negative consumption externalities are heavily experienced by us in our day to day life. Such negative consumption ex. initiated in consumption which produce external costs on others may be received in consumption or in production.

Social Cost

Private Cost (Eg: Direct cost of prod.)
+
External Cost (Eg: Petha Agra)

Unit - 2 - Market Failure

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Reasons of Market Failure

Public Goods

- Public goods
- Private goods
- Pure goods
- Impure goods
- Mix goods
- Common Access
- Global public goods
- Free Rider goods.

Asymmetric

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old car

Adverse Selection

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Eg: Insurance

Meaning:

Perfect info implies that buyer and seller have complete info about anything that influence their decision making.

Asymmetric means, imbalance of info b/w buyer & seller.
i.e. Buyer knows more than seller and vice versa.

This can distort choices.

Types of Market Failure

Demand side

Supply side

D) Stabilization function.

A) The role of govt. in an Eco. system

Unit I -

Fiscal function:
An Overview

C) The Redistribution function

B) The Allocation function