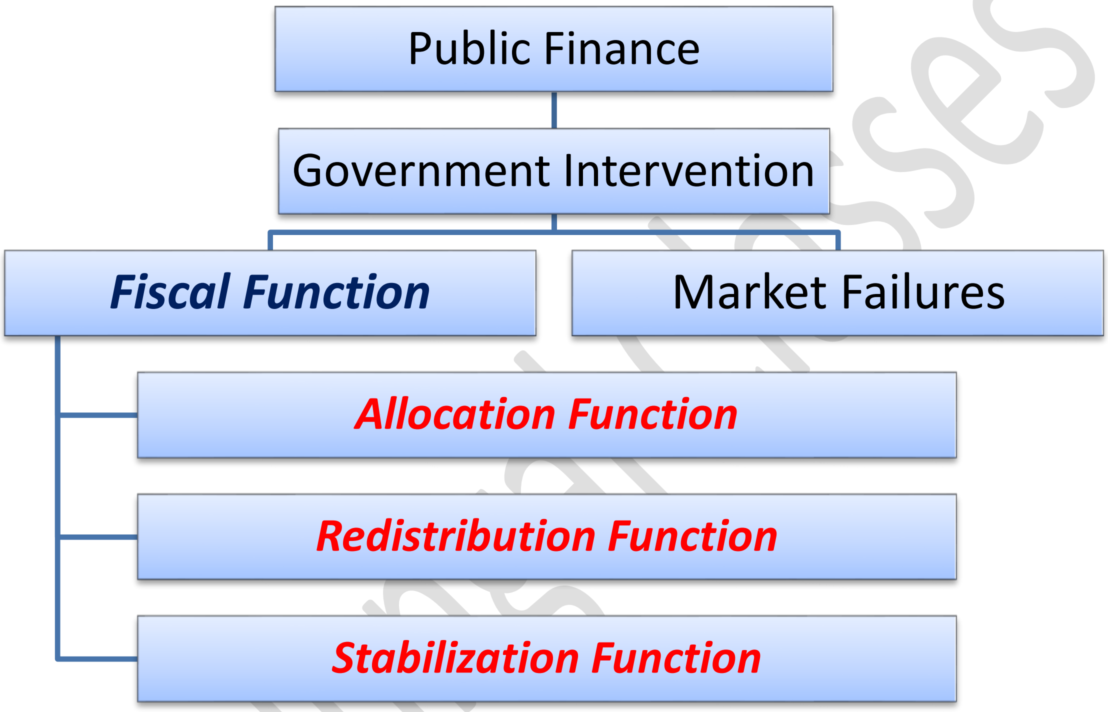
CHAPTER -II PUBLIC FINANCE

Unit-I Fiscal Functions: An Over View



Allocation Function

- The allocation responsibility of the government involves appropriate corrective action when private markets fail to provide the right and desirable combination of goods and services.
- A variety of allocation instruments are available by which Governments can influence resource allocation in the economy such as, direct production, provision of incentives and disincentives, regulatory and discretionary policies etc.

Distribution Function

- Aims at redistribution of income so as to ensure equity and fairness to promote the wellbeing of all sections of people and is achieved through taxation, public expenditure, regulation and preferential treatment of target populations.

Stabilization Function

- One of the key functions of fiscal policy and aims at eliminating macroeconomic fluctuations arising from suboptimal allocation.
- Concerned with the performance of the aggregate economy in terms of labour employment and capital utilization, overall output and income, general price levels, economic growth and balance of international payments.
- Government's stabilization intervention may be through monetary policy as well as fiscal policy. Monetary policy has a singular objective of controlling the size of money supply and interest rate in the economy, while fiscal policy aims at changing aggregate demand by suitable changes in government spending and taxes.

Fiscal Policy Challenges

- Conflicting goals of budgetary policy.
- Designing the budgetary policy in a way that the pursuit of one does not jeopardize the other.