

Public Finance

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Opening Remarks

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- office: No. 122
- office hours: Tuesday 8:30-9:30 p.m.
Thursday 10:00-11:00 p.m.
- All informations are available on the PF website in terms of IS

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Today's Session

- Detailed course outline
- Principles of Public finance
- Tasks elaboration

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General Rules

- For successful graduation participants are obliged to attend 5 seminars
- Term of assignment submission is a week before the last seminar
- Assignment presentation in module 6

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Assignment

- Topic of assigment is macroeconomic analysis of selected EU member state focused on public finance
- Students carry out assignment in pair
- Min. duration of time series is 5 years

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Structure of Assignment

- Title
- Abstract
- Keywords
- Content
- Introduction (Aim, Subject, Methodology)
- Theoretical background
- Data analysis (graphs, tables)
- Conclusion/Discussion
- List of references

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Formal requirements for assignments

- Writing an assignment on a PC using WORD
- Minimum length of paper 10 pages
- Page layout: margins 2,5 cm, lines 1,5, letter size 12
- Quotations have to follow
The Dean dirrection No.1/2006 and standard ISO 690

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Data Requirement

- Government deficit
- Government debt
- Inflation
- GDP
- Exports and Imports of goods and services
- Unemployment
- Cost of living

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Course Objectives

- To give you the capacity to understand the theory and apply, in real world situations, the techniques that has been developed in public finance.
If it cannot be applied, who cares?
- To give you the big picture of public finance so that you can understand how things fit together.
You can forget the details, but don't miss the story.
- To show you that public finance is fun.
It takes more work, but it is more fun.

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Tasks

- Personal expectancy of this subject
- Try to characterize Public Finance

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Principles of Public finance

-Quantity of disparate conceptions.....
- What is Finance?
 - What is Public finance?
 - All these terms are concepts of economics

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Economics

- "Economics is that way of understanding behavior that starts from the assumption that people have objectives and tend to choose the correct way to achieve them." (D.Friedman)
- „Economics is the social science that studies the consumption, production and distribution of goods and services. The word 'economics' is from the Greek term for oikos (house) and nomos (custom or law), hence "rules of the household., (VK Publications)

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Assumptions of Economic Policy

- Economic policy concerns basic functions of government that enters the economy as a specific subject with the view of compensating market failures.

Major Functions in general:

- Allocation
- Redistribution
- Stabilization

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Instruments of Economic Policy

- Monetary Policy

„Is a policy of influencing the economy through changes in the money supply and credit availability in the economy.“
(D.Colander)

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Instruments of Economic Policy

- Fiscal Policy

Is the term that defines the set of principles and decisions of a government in setting the level of public expenditures and how that expenditure is funded.

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Role of Economic Policy

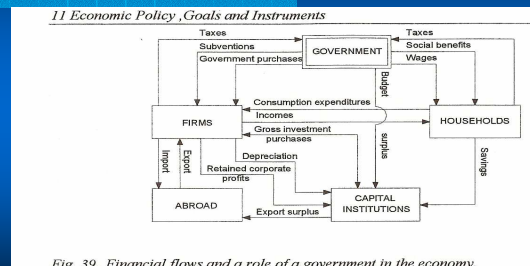


Fig. 39. Financial flows and a role of a government in the economy.

(Korytářová)

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Magic tetragon

G stands for average yearly rate of real output growth [%].
U stands for average yearly rate of unemployment [%].
I stands for average yearly inflation rate [%].
B represents average portion of balance of payments on current account as a share of nominal output [%].

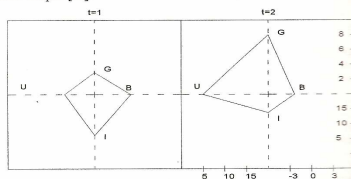


Fig. 40. Magic tetragon.

(Korytářová)

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Sorts of “Finance”

- Personal finance – used by individuals
- Corporate finance – used by business
- Public finance – used by government

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Public Finance vs. Public Sector Economics

- The scope of public finance is not always exactly clear
 - Statement of problem - Dichotomy of 2 Approaches
 - Theory of Public Finance Public Sector Economics
- | | |
|--|---|
| <ul style="list-style-type: none">• Preference• Public funding• Public revenues• Public Expenditures• Budgetary Policy• Public Budget Deficit• Public debt | <ul style="list-style-type: none">• Economic Role of State• Public Sector Activity• Production Functions• Efficiency |
|--|---|

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Scope of Analyses

- Our focus is on the microeconomic functions of government, the way of government affects the allocation resources and distribution of income
- Use term Public finance

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Scope of Analyses

- Real World of Government Activity
- Science
- University Subject

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Elementary axioms of Public Finance

- Irrevocable performance
- Anticoincident fulfillment
- Involuntary

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In the End – what the Public Finance Is

- Public finance concerns economic performance of all state authorities together, and include government budget, budget of local authorities, special funds and budgets of state-owned enterprises
- Public Finance is nothing else than a sophisticated discussion of relationship between the individual and state. There is no better school of training than public finance
- (Václav Klaus)

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