2.Public Finance

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Today´s Session

1. Rehearsal of the 1.seminar
2. Discussion on the public health topic
3. Budgeting
4. Assignment terms
5. Tasks elaboration

1. Seminar reahersal

- **Fiscal Policy**

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

Sorts of “Finance”

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

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 Fincne 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)**

2. Discussion on public health topic

- **What is your opinion on public health reform?**
- **What is calculated impact on public finance?**

3. Budget

- **There are 2 similar terms in the field of budgeting:**
- **Budgeting – process**
- **Budget – result of process activity**

What the budget is:

- **BUDGET (originally from a Gallic word meaning sack, latinized as *bulga*, leather wallet or bag, thence in O. Fr. *bougette*, from which the Eng. form is derived), the name applied to an account of the ways and means by which the income and expenditure for a definite period are to be balanced, generally by a finance minister for his state, or by analogy for smaller bodies[1].**
- **Budget is a translation of plans into the accounting and financial figures. It represents a detailed forecast of incomes and costs for given period. Budget control is one of the safest methods of identifying deviation for future correction.**
- [1] 1911 Encyclopædia Britannica/Budget

Types of budget

- **Personal budget**

  all sources of income are identified and expenses are planned with the intent of matching outflows to inflows (Making ends meet).

- **Corporate budget**

  requires considerable effort and can be seen as a financial plan for the new financial year. Consist of three basic statement: balance sheet, income statement and cash flow statement.

- **Government (state) budget**
- **The budget of a government is a summary or plan of the intended revenues and expenditures of that government.**

Government Budget

- **Cornerstone of Public Finance**
- **Projection of state economy**
- **Centralized money fund**
- **Collects incomes (GDP) and redistributes them thru budgets**
- **Blance sheet of government income and expendictures**

Budget Submission

- In the USA, the federal budget is prepared by Leonel Duval in the Office of Management and Budget, and submitted to Congress for consideration.
- In the UK the budget is prepared by the Chancellor of the Exchequer, the second most important member of the government, and must be passed by Parliament. The Parliament seldom makes changes to the budget.

General Principles of Budgeting

The three main finantial statements give a comprehensive picture of all economics activities, developments, changes and results of economic activity during a certain period. They can be used as information for public, but also internally.

Six Assumptions could led to problems with fiscal policy

- **Finaning the deficit does not have any offseting effects**
- **The goverment knows what the situation is**
- **The government knows the economy‘s potential**
- **The government has flexibility in terms of spending and taxes**
- **The size of government debt does not matter**
- **Fiscal policy does not negativly affect other government goals**

Government budget

- **Government budget is centralized money fund. Just as any other budget, it has and income and expenditure side**
- **The state is represented by a number of authorities and institutions. Public finances concern economic performance of all state authorities together, and include government budget, budgets of local authorities, special fund and budgets of state-owned enterprises. Fiscal policy consists in managing public incomes and expenditures.**

Income side of budget

Income side of budget

- **Is formed mainly by taxes. Tax is compulsory payment paid by subjects of the economy, individuals or enterprises, according to legally mandated rules to state treasury. The tax system is differ from country to country, generally they all are similar (mainly for advanced countries). System consist of:**
- **Direct tax**
- **Indirect tax**

Expenditure side of budget

- Purchases of goods and services (for public defense, government administration, education system). Major item of government purchases there are investment costs for infrastructure of national economy (road-trafic infrastructure, public utilities)
- Transfer payments

undistributed profits nerozdelený zisk

10.7 THE BALANCE SHEET

The balance sheet, therefore, is a recapitulation of

- any allocation of funds within the company at a specific point of time
- assets and liabilities, what the company owns and what it owes.

As such, the balance sheet is a static document, like a snapshot of the company's "state of affairs" at a given moment. Both sides of the document must be balanced. In a simplified form, the balance sheet has the following construction:

1. **fixed assets**	11. **owner's equity**
2. intangible investment property	12. capital stock
3. tangible investment property	13. capital funds
4. financial investments	14. undistributed profits
5. **current assets**	15. dividends
6. stocks	16. **external sources**
7. production-in-progress	17. long-term liabilities
8. accounts receivable	18. short-term liabilities
9. short-term financial property	19. bank loans
10. **TOTAL ASSETS**	20. **TOTAL LIABILITIES**

The profit and loss account (Income statement)

- **The profit and loss account – also known as the income statement or statement of operations:**
- **Record of activities of a entity over a certain period of time. It recapitulates all the costs and income of prescribed accounting period in order the economic result, that is profit or loss**

The profit and loss account

1. **gross sales**	
2. rebates, discounts etc.	
3. **net sales**	1-2
4. material cost	
5. services	
6. intermediate consumption	4+5
7. **gross profit** (added value)	3-6
8. wages and salaries	
9. contributions to social security and health insurance	
10. staff costs	8+9
11. taxes and duties	
12. depreciation	
13. operating expenses	6+10+11+12
14. **operating profit**	3-13
15. financial income	
16. financial expenses	
17. **financial return**	15-16
18. profit before taxes	14+17
19. profit before taxes + depreciation	18+12
20. income tax	
21. **net income** (profit after taxes)	19-20

Czech Republic State Budget

Income		Expenditures	
VAT	120,3	Social benefits	293,3
Excise taxes	65,7	incomes	200,1
Income taxes	70,1	Noninvestment purchases	128,4
Indivudual income taxes	77,3	Investment	51,4
Other taxes	11,6	Other	20,7
Duty	10,0		
Grants	27,9		
Social insurance	242,3		
Total	625,2	Total	693,9
Deficit	68,7		
Total	693,9	Total	693,9

Source: Ročenka Hospodářských novin 2003, Economia, Praha 2003

Fig. 38. National Budget ČR, 2001 (v mld. CZK)

4. Assignment requeremnts

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

(Gross Domestic Product)

- GDP aggregate final output of residents and businesses in an economy in one-year period
- GNP aggregate final output of citizens and businesses of an economy in a one-year period

The components of GDP

- ***GDP = consumption + investment + (government spending) + (exports − imports)***

C ***is private consumption in the economy***

G ***is the sum of government expenditures on final goods and services***

I ***is defined as business investments in capital***

X ***is gross exports***

M **s gross imports**

NX are "net exports" in the economy: gross exports − gross imports. There is a fixed relation: NX = X − M

Government deficit and debt

- **A deficit is a shortfall of incoming revenue under outgoing paments**
- **A debt is accumulated deficit minus accumulated surpluse**

A formula to calculate debt, *D*, is:

D = $RBt - 1 + Gt(r - g) - Tt$

where *R* is the real interest rate, *Bt* − 1 is last year's debt, *r* is the interest rate, *g* is the growth rate, *Gt* is government spending, and *Tt* is tax revenue.

Examples

- **If your income (revenues) is 20 000 per year and your expendicture are 30 000 per year, you are running *<u>deficit</u>***
- **You have spent 30 000 a year for 10 years and have annual income of 20 000 for 10 years. You have had deficit of 10 000 per years. At the and of 10 year, you eill have accumulated a debt of 100,000**

- **Internal government debt**
- **External government debt**

5. Task for the next seminar

- **What is your opinin on possible reform of pension system?**

References

- **Kaftan, M. Modern Business English. Praha: LEDA, 2001.**