Public & Private Finance

Public Finance: studies income and expenditure activities of the state or government.

Private Finance: studies income and expenditure activities of the private individuals and private entities.

Public & Private Finance

Similarities-

1. Both the individuals and & the state have broadly same objectives, viz. the satisfaction of human wants. Private finance- satisfaction of personal wants & public finance- satisfaction of collective wants.
2. Both individuals and state have receipts and expenditure and each tries to balance both to get maximum satisfaction.

Public & Private Finance

Similarities-

3. Both in private and public finance, borrowing becomes essential when expenditure is more than income.

4. Both face the problem of adjustment of income and expenditure. i.e. problem of unlimited wants and scarce resources.

Public & Private Finance

Differences

1. Determination of expenditure-

Public authority first determines the volume of expenditure and then tries to find out resources to meet this expenditure. Whereas private individual first looks at income and then decides volume of expenditure.

Public & Private Finance

Differences

2. Compulsory Character-

State cannot avoid or postpone certain expenditure, while this can be done in case of individuals. E.g. expenditure on defence, public administration etc. cannot be avoided or postponed.

Public & Private Finance

Differences

3. Principle of equi-marginal utility-

Private individuals are more capable of applying this principle because they are more free to follow their own scale of preferences. Whereas public authority is unable to take this principle as a basis of its expenditure on defence, education, agriculture etc.

Differences

4. Nature of Budget

An individual generally believes in surplus budget but public authority may follow deficit budget for several years, specially in case of war and economic development.

Differences

5. Nature of Resources-

The resources for individuals are more or less limited. Whereas when it comes to public authority, it can print currency, pass different laws to increase its income etc.

6. Motive of expenditure-

Motive of private individual on business transaction is profit. Transaction of public bodies is motivated by public welfare.

Private & Public Finance

Differences

7. Long Term Consideration-

Private individuals invest where returns are quick and immediate. Govt. undertakes projects in interest of public welfare.

8. Coercive Methods-

Public authority can use coercive methods to realise its revenue. But private individuals cannot use force to get their income in the manner in which the govt. does.

Private & Public Finance

Differences

9. Publicity and Audit-

Private individual likes to keep his financial transaction secret, while govt. gives greatest publicity to its budget proposals and allocation of resources to different heads in its plan documents.