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B.A. - II

Part - IV

Topic - Assumptions and Diagrammatic explanation of Principle of Maximum Social Advantage.

Assumptions of Principle of Maximum Social Advantage :-

- ① All taxes result in sacrifice, all public expenditure lead to benefit.
- ② Public revenue consists of only taxes & government has no other source of income.
- ③ Government has no surplus no budget deficit.
- ④ Taxes are subjected to increase marginal social sacrifice
- ⑤ Public expenditure is subjected to law of diminishing marginal utility therefore marginal social benefit keeps on diminishing.

Principle of Maximum Social Advantage :-

In words of Dalton;

"Public expenditure should be done till the point where the advantage of a unit increase public expenditure to the society is counter balanced by the disadvantage of a unit increase in revenue or taxation".

With every additional unit of taxes raised by the public, the burden of tax keeps on increasing while the quantum of benefits keeps on decreasing.

Dalton gave the following two concepts;

(1) Marginal social sacrifice

- It is amount of sacrifice undergone by public i.e. the tax payer due to imposition of one additional unit of tax.

(2) Marginal social benefit

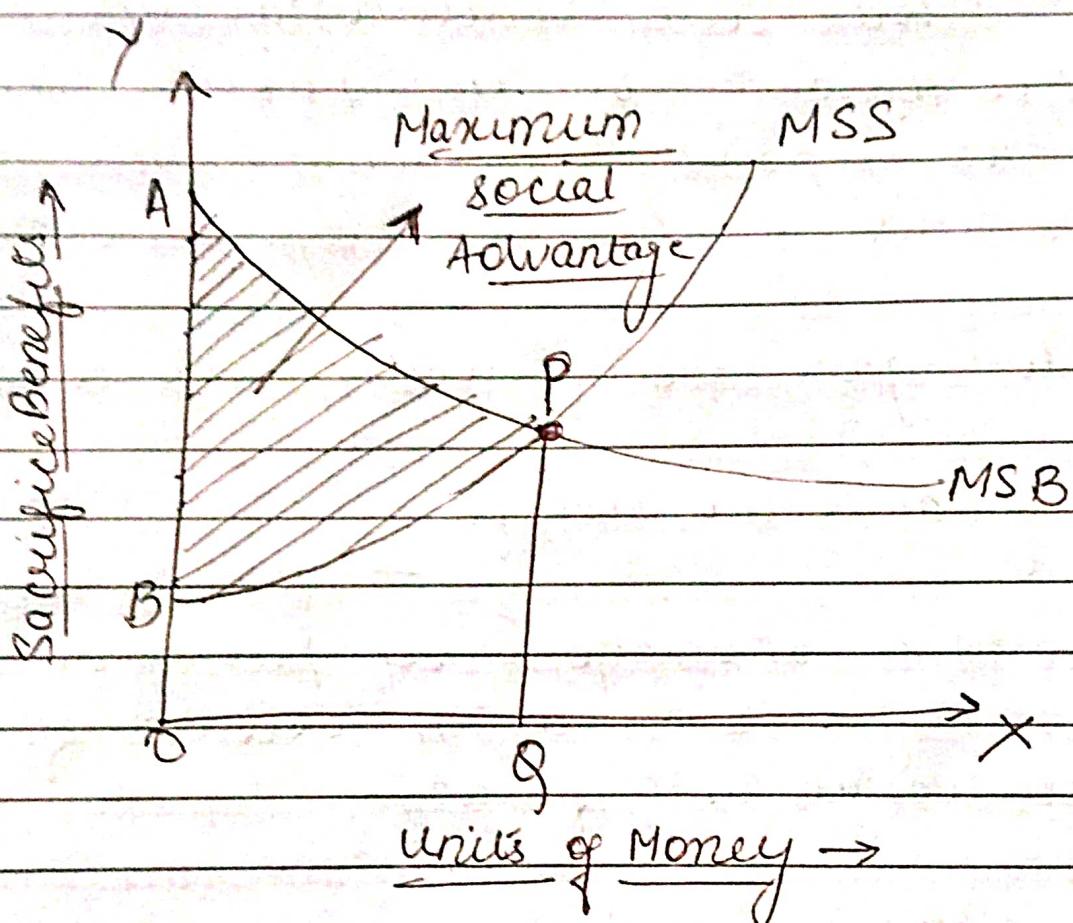
- It is the benefit enjoyed by the public on one additional unit of expenditure.

The point of maximum social advantage is the point where marginal social sacrifice cuts the marginal social

benefit curve

In order to achieve maximum social advantage;

Marginal social benefit should be equal to marginal social sacrifice.



The equilibrium point of maximum social advantage is explained with the help of diagram.

MSS is Marginal Social Sacrifice Curve.  
MSB is Marginal Social Benefit Curve.

The curves MSS and MSB intersect at point P. This equality of MSS & MSB curves is regarded as the optimum limit of the state's financial activities.

Only under the condition,  $MSS = MSB$ , the maximum social advantage is achieved. In the diagram, the shaded area ABP (the area between MSS & MSB curve, where both intersect each other), represents the quantity.