**M.Phil. (Economics) Semester II**

**ECO-124**

**(Environmental Economics and Public Economics)**

**Topic: Burden of Public Debt**

**LECTURE NOTE III**

### Measurement of the Burden of Debt:

Usually, burden of debt refers to financial burden of the government.

But as it does not indicate true burden, we consider following ratios to estimate the burden of debt:

#### i. Income-Debt Ratio:

It is estimated as:

size of public debt/national income = D/Y

If Y remains at a very high level, the burden of debt, D, will be insignificant. However, if the ratio becomes high, debt then poses a great burden.

#### ii. Debt-Service Ratio:

This ratio is measured as:

Annual interest payments of borrowing/National income = i/Y

Increase in Y means lower debt-service ratio. However, taxes are collected for the repayment of public debt. Thus, this ratio indicates the necessity of imposing higher taxes.

#### iii. Debt Service-Tax Revenue Ratio:

It is worked out as:

Annual interest payments/Aggregate tax revenue = i/T

An increase of this ratio indicates the financial weaknesses of the government.