Class XI ECONOMICS

CHAPTER - 3

LIBERALISATION, PRIVATISATION AND GLOBALISATION: AN APPRAISAL

IMPORTANT QUESTIONS

MULTIPLE CHOICE AND VERT SHORT ANSWER QUESTIONS (1 Mark)

Question 1

What is the other name of World Bank?

a) Federal Bank

b) ICICI

c) IBRD

d) Bank of America

Answer

(c) IBRD is the other name of World Bank. Its expansion is International Bank for Reconstruction and Development.

Question 2

What is meant by disinvestment?

Answer

Disinvestment is the action of an organization or government selling or liquidating an asset or subsidiary. In disinvestment, usually, 26% or 51% of share is retained with the government company, and the rest is transferred to the strategic partner.

Question 3

What are the things included in foreign investment?

Answer

Foreign investment includes FDI (foreign direct investment) and FII (foreign institutional investment).

Question 4

What are the sources of direct taxes?

Answer

Those taxes where the burden cannot be shifted to others are mainly known as direct taxes. For example, income tax, corporate tax, gift tax etc.

Question 5

What is meant by WTO?

Answer

The WTO was founded in 1995 as the successor organisation to the General Agreement on Trade and Tariff (GATT). WTO is expected to establish a rule-based trading regime in which nations cannot place arbitrary restrictions on trade.

Question 6

Industrial growth in India has recorded a slowdown in the period of economic reforms. What are the reasons for this?

a) Decreasing demand of domestic industrial products

b) Globalisation

c) India does not have access to different markets because of high non-tariff barriers.

d) All the above

Answer

(d) All of the above.

Question 7

Which of the following are correct regarding growth during the reform period?

a) The growth of agriculture declined.

b) The service sector reported fluctuation.

c) The growth of industrial sectors has gone up.

d) The growth during this phase was mainly driven by the growth in the service sector.

Answer

Both (a) and (d) are correct.

Question 8

Give the meaning of Privatisation.

Answer

Privatization is the process of transferring an enterprise or industry from the public sector to the private sector. This is often referred as denationalization and destatization.

Question 9

What is meant by Globalisation?

Answer

Globalisation implies the opening of local and nationalistic perspectives to a broader outlook of an interconnected and interdependent world with free transfer of capital, goods, and services across national frontiers.

Question 10

For which contribution is PC Mahalanobis regarded highly by statisticians and economists all over the world?

Answer

Prasanta Chandra Mahalanobis is also known as the father of Indian Statistics. As an architect of development planning, he had guided the evolution of statistical studies as an important instrumentality for policy planning.

Question 11

What benefit goes to domestic Industries of reduction in tariff?

Answer

Imports has become cheaper and there is increase in profit margin on exports for domestic industries are the main benefits.

Question 12

What are the indirect taxes? Give two examples.

Answer

These are the taxes which are not directly levied on the income but is indirectly levied on the expenses incurred by the individual. For example, service tax, excise and customs duty, VAT, entertainment tax, etc. Now most of the taxes are merged and called GST (goods and service tax).

Question 13

Why in India, Industrial sector growth has lowered down?

a) Due to availability of cheaper imports and lower investment

b) Income of public has increased

c) Exports are giving good response

d) Manpower has decreased in industries

Answer

(a) Due to availability of cheaper imports and lower investment, industrial growth has interrupted.

Question 14

What is fiscal policy?

Answer

Fiscal policy is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy. It is the sister strategy to monetary policy through which a central bank influences a nation's money supply. The two major examples of expansionary fiscal policy are tax cuts and increased government spending.

Question 15

State the meaning of economic reforms.

Answer

It refers to those measures which are adopted for competitive markets, production efficiency and ensures speedy growth of economy.

SHORT ANSWER QUESTIONS (3 OR 4 MARKS)

Question 16

What are the impact of economic reforms on agriculture?

Or

Consider the impact of economic reforms on agriculture.

Or

Examine the impact of economic reforms on agriculture in India.

Answer

The impact of economic reform on agriculture is a mixed one. India has attained near self-sufficiency in food grains. Both green revolution and liberalisation of India's agriculture have favourable effects on overall as well as agricultural GDP. In the mid-1990s, it was expected that agriculture would continue to be the most important sector of the economy for the rest of the decade in terms of the proportion of GDP. However, even when it is not the sector providing the largest share of GDP, the importance of agriculture is not likely to diminish because of its critical role in providing food, wage goods, employment, and raw materials to industries. Despite their preoccupation with industrial development, India's planners and policy makers have had to acknowledge the critical role of agriculture in the early 1990s by changing basic policy. The gains in agricultural production should not lead to complacency.

Question 17

Throw some light on Siricilla Tragedy.

Or

What is Siricilla Tragedy?

Answer

Siricilla in Andhra Pradesh is a well-known place of handloom industry in India. Suicide of 50 handloom workers which shook the nation is mainly known as Siricilla Tragedy. The power loom weavers of Siricilla textile town in Karimnagar district, who are yet to recover from the burden of FSA (Fuel Surcharge Adjustments), are now reeling under the crisis of unemployment and closure of power looms with traders stopping the supply of raw material following the escalation of polyester yarn cost. Suicides by weavers and power loom owners are not uncommon. The Siricilla power looms could not even dream of competing with these modern looms in terms of price, quantity or quality. Sales dropped and stocks mounted, as did the interest outstanding on bank loans. According to Siricilla Power loom and the Handloom. It is said that currently materials worth over Rs.2 crores have been lying in godowns for the last two years.

Question 18

Is India able to show its global footprint?

Or

How much you know about India's global footprint?

Answer

After several years of disturbed conditions and volatility in the global economy, signs of growth and stability are visible. The International Monetary Fund has forecast global growth to strengthen to around 3.5% for the next couple of years, led by the emerging economies. At the same time, political conditions seem to be changing, and there is a distinct negative sentiment regarding globalization. After globalisation started in India, many Indian companies expanded its wings to other countries. Today there are global presence of many Indian private and public companies, e.g. ONGC Videsh, Tata Steel, Birla Group, Adani Group, Reliance, etc. For India, global growth conditions have become a vital factor for its own progress. The subdued environment of the last few years has had a direct impact on our growth story. This is indeed a challenging time for Indian industry, which is looking at overseas markets for both trade and investment opportunities. Indian industry, despite all the hurdles on the domestic front resulting from infrastructure gaps and problems of financing, is eager to integrate itself into the dynamic global value chain. The Government is keenly promoting India's overseas relations. Prime Minister Narendra Modi has himself visited over 50 countries, and has signed a number of agreements for greater trade and investments. Defence has emerged as a key sector of cooperation as India has liberalized its defence manufacturing sector and is encouraging the participation of global majors to help it develop into a manufacturing hub for defence equipment, with the relevant technologies. Such interactions deepen the overseas footprint of Indian industry. As the world realigns with emerging realities, India has the opportunity to capture more space in multiple manufacturing and services sectors.

Question 19

What are the Navratnas Companies of India?

Answer

In the year1997, government gave the status of Navratna to 9 Public Sector Enterprises (PSEs). Thus giving them greater autonomy to compete in the global market by supporting them in their drive to become global giants. Currently there are total 17 companies having the status of Navratna. **Bharat Heavy Electricals (BHEL), HAL, NTPC, Oil India Ltd, MTNL** etc. to name a few. The Government had introduced Navratna scheme, in 1997, to identify CPSEs that had comparative advantages and to support them in their drive to become. The conditions to get the Navratna status are as below:

(a) The company must score at least 60 out of 100 on various parameters like net profit, net worth, total manpower cost, total cost of production, cost of services, PBDIT (Profit Before Depreciation, Interest and Taxes), capital employed, etc.
(b) It must be at the status of Miniratna.
(c) It should have at least four independent directors on its board.
(d) The company must have up to Rs. 1,000 crore or 15% of their net worth on a single project or 30% of their net worth in the whole year (not exceeding Rs. 1,000 crores).

Question 20

What is India's export - import policy?

Answer

Foreign Trade Policy is prepared and announced by the Central Government (Ministry of Commerce). Foreign Trade Policy or EXIM Policy is a set of guidelines and instructions established by the DGFT (Directorate General of Foreign Trade) in matters related to the import and export of goods in India.

Foreign trade accounted for 48.8% of India's GDP in 2015. Indian EXIM Policy contains various policy related decisions taken by the government in the sphere of Foreign Trade, i.e., with respect to imports and exports from the country and more especially export promotion measures, policies and procedures related thereto. Export refers to selling goods and services to other countries, while import means buying goods and services from other countries. Now in the era of globalization, no economy in the world can remain cut-off from rest of the world. Export and import play a significant role in the economic development of all the developed and developing economies. With the growth of international organisations like WTO, UNCTAD, ASEAN, etc., world trade is growing at a very fast rate. Currently the policy which is running is known as India New Foreign Trade Procedure 2015-2020 or India New Foreign Trade Policy (Exim Policy) 2015-2020.

LONG ANSWER QUESTIONS (5 OR 6 MARKS)

Question 21

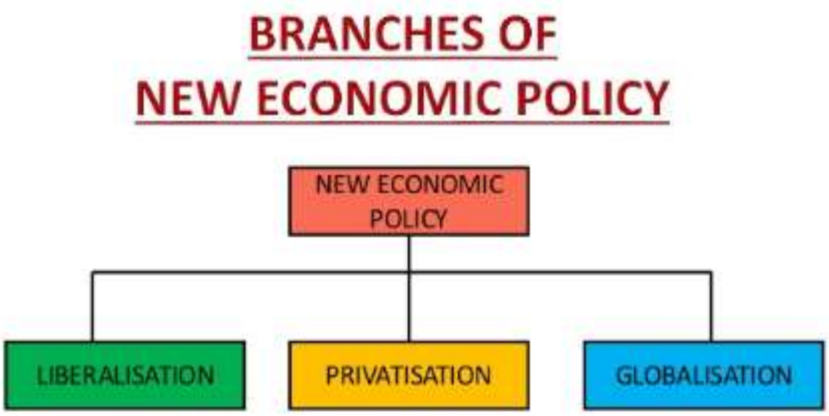
Explain briefly the merits and demerits of the economic reforms introduced in 1991.

Or

What are the pros and cons of economic reforms of India?

Answer

The year 1991 is an important landmark in the economic history of post-Independent India. The country went through a severe economic crisis triggered by a serious Balance of Payments situation. The crisis was converted into an opportunity to introduce some fundamental changes in the content and approach to economic policy. The response to the crisis was to put in place a set of policies aimed at stabilisation and structural reform. Former Prime Minister Manmohan Singh is considered to be the father of New Economic Policy of India. The thrust of the New Economic Policy has been towards creating a more competitive environment in the economy as a means to improving the productivity and efficiency of the system. This was to be achieved by removing the barriers to entry and the restrictions on the growth of firms.



Strengths of New Industrial Policy, 1991:

It entered a new phase of what has been described as 'reform by storm' supplanting the approach of 'reform by stealth' of the latter half of the 1970s and 'reform with reluctance' during the second half of the 1980s.

- The New Industrial Policy made a bonfire of the industrial licensing system through various provisions. There has been a move away from extensive physical controls and an increase in the role of financial incentives in channelling investments in the desired direction.
- There is considerable internal deregulation aimed at strengthening the more efficient domestic firms and encouraging them to invest and expand.
- Measures have also been taken to improve the legal framework. The Securitisation, Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 gives powers to banks and financial institutions to enforce their claims on collateral for delinquent secured credit, without going through a long and cumbersome judicial process.
- An important feature of the process of policy reform underway in India is that it is gradualist as against the 'big bang' type adopted in some other countries. The system is being subject to much stronger pressures for efficiency and modernisation, but at a controlled pace.

Major Weaknesses of New Industrial Policy, 1991:

- In the environment of limited export incentives and regulated labour markets there seems little reason to believe that today's infants will provide an engine for growth consistent with the present targets.
- There is concern over the slow pace of investments in many basic and strategic industries such as engineering, power, machine tools, etc. This is mainly due to the low rate of return in these sectors, which is less than that in the new or 'sunrise' industries (e.g. IT sectors).

- Restructuring and modernisation of industries as a sequel to the new industrial policy, often leads to displacement of labour. This would call for redeployment of labour through rehabilitation schemes.
- Focussing attention on internal liberalisation without adequate emphasis on trade policy reforms resulted in 'consumption-led growth' rather than 'investment' or 'export-led growth'. The resultant growth process was therefore not sustainable in a longer timeframe.
- The policy of liberalisation appears to have failed to achieve one of its major objectives, vis. creating more innovative firms.

Question 22

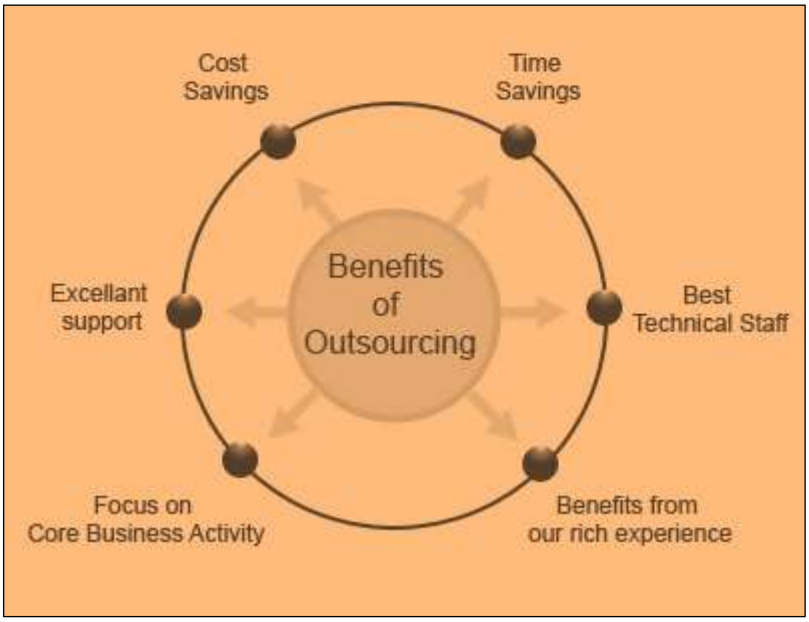
Define the term outsourcing. How much India is benefitted?

Or

Outsourcing has created lot of employment opportunities in India. Give arguments in favour of this statement.

Answer

India continues to be the major destination for outsourcing because it has been able to evolve with changing needs. NASSCOM, (National Association of Software & Service Companies) the apex body of India's premier IT software and service (IT & BPO) companies, reported that India's share in the global outsourcing market rose from 51% in 2009 to 55% in 2010. India still stands out for its customer service and efficiency, so its future is bright.



Following points focus why India is first choice in outsourcing world:

- Today, customers are not only looking at cost-effective solutions for their outsourced business but also for skilled staff, enhanced productivity, service quality and business process excellence. India, with its large population and multiple-skilled people, would continue to be preferred for both back-end and front-end outsourcing.
- Outsourcing is the business practice of hiring a party outside a company to perform services and create goods that traditionally were performed in-house by the company's own employees and staff.
- India remains unmatched when it comes to its vast pool of skilled and talented human resources. The country has a population of over 1.2 billion people and around 3.1 million graduates are added to the workforce each year. India also holds the distinction of being the largest English speaking nation in the world, larger even than the US and UK combined.
- The reason why India remains a top outsourcing provider is due to the significant cost savings that companies can achieve. This is mainly because of the wide gap that exists between personnel costs in India and that of the developed countries. For example, a good developer in the U.S. can cost anywhere from $50 to $80 an hour (for a full-time staffer depending on skills and experience). In comparison, the hourly cost of a developer in India can be negotiated down to as low as $15 per hour.
- While the cost factor plays a huge role in outsourcing, the consistently high quality provided by Indian outsourcing firms has also enabled India to remain as the top outsourcing destination. The National Outsourcing Association (NOA), in its Annual Offshore Outsourcing Conference, reflected on the trend commonly seen among International companies who choose India as their preferred outsourcing destination.
- The Indian outsourcing industry is supported by a stable pro-IT government whose policies on the economy, GDP growth, taxation, power, telecom, industrial parks and special zones have been helpful in improving infrastructure as well as communications systems.
- The Indian government has offered its support to the IT industry by providing various tax-related and other benefits and by enacting the Information Technology Act, which recognizes electronic contracts, bars cybercrime, and supports e-filing of documents.

Question 23

What do you mean by disinvestment? How is it done in public sector enterprises in India?

Or

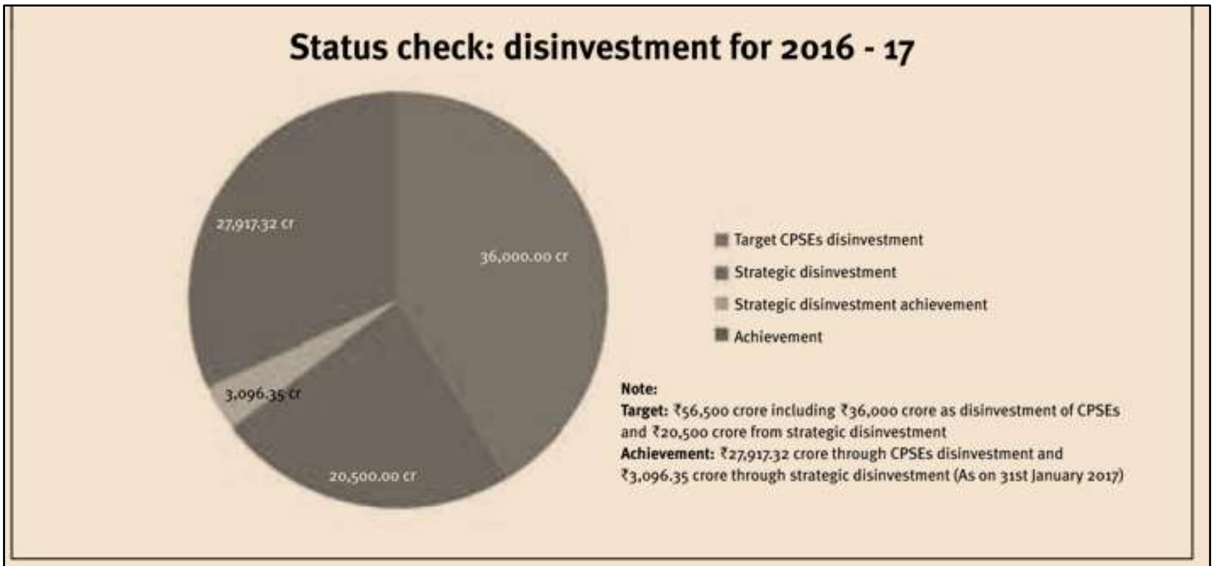
What is the difference between disinvestment and privatisation?

Or

Do you think loss making enterprises should be privatised? Why?

Answer

Disinvestment means the dilution of stake of the Government in a public enterprise. This can be done in two ways. When the Government sells a part of its equity of a public enterprise less than 50 per cent of its total stock, it is called merely disinvestment and in this case control and management of the business enterprise remains in the hands of Government. When disinvestment or sale of its equity capital by the Government exceeds 50 per cent so that the majority ownership and therefore control and management of the enterprise is transferred to private enterprise, it results in privatisation. Therefore, in many disinvestment programmes government retains 51 per cent or more of the total equity capital of the public enterprises so that control and management remains in its hands. Public sector disinvestment is due to resources available with the Government are scarce. The Government needs resources to reduce its budget deficit. Second, the Government urgently requires resources to make investment in infrastructure, social sectors such as education, public health and for poverty alleviation programmes. The proposal of the use of proceeds from disinvestment for retiring a part public debt has been put forward by several economists. Disinvestment, especially privatisation of public sector enterprises, will ensure that the working of these enterprises will be governed by professional managers guided by market mechanism instead of being administered by bureaucrats.



Source: Department of Investment & Public Asset Management

Disinvestment of public enterprises can be made in a number of ways:-

- The entire public enterprise can be sold to a private sector firm which is the highest bidder or otherwise. In this case both the ownership and control or management is transferred to the private firm.

- The second way in which disinvestment in a public enterprise can be made is selling a part of the Government stake to a strategic private company. A strategic company is one which has a strategic interest in the public enterprise and has a capability to run it efficiently.
- Finally, sale of a certain number of Government shares in a public enterprise can be made through auction of shares among a selected number of private firms. The reserve price of shares of a company for auction can be determined with the help of merchant bankers.

Question 24

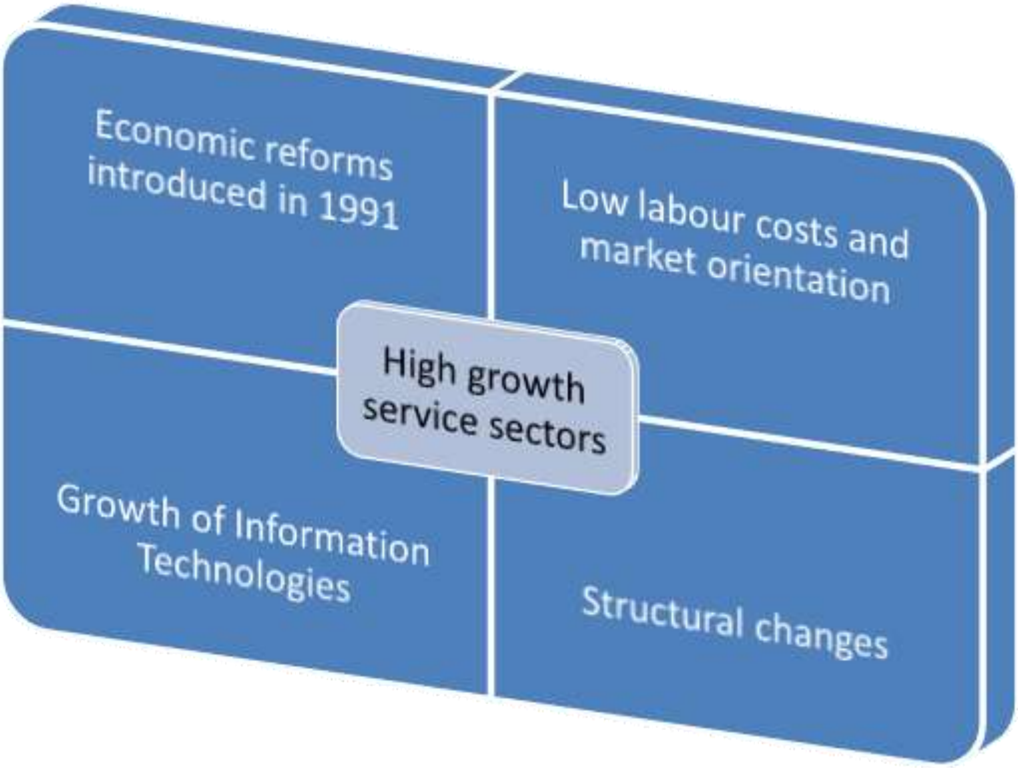
What are the major factors responsible for the high growth of the service sector?

Or

Enumerate the reasons responsible for shining service sector of India.

Answer

India's services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction. India's dominant services sector is not called the economic engine without reason. The advent of globalization and increased automation of manufacturing has cause the relative demand for manufacturing jobs in advanced economies to decline. This frees up labour for the service industry and creates downward pressure on wages in the less skilled parts of that sector due to the higher supply. For the higher skilled parts of the service sector, more students are opting for degrees in finance and business, but finding that deregulation of the banking industry has created more high paying opportunities in things like the investment banking segment, vs being a CFO at a small manufacturing concern.



Major factors responsible for the high growth of the service sector in India:

- **Economic reforms in 1991**: Economic reforms introduced in 1991 allowed MNCs to enter the Indian market. It abolished restrictions on foreign investment and opened the doors for inflow of foreign capital. Government-liberalised policy enabled the increase of foreign direct investment drastically. It brought several changes in the Indian market.
- **Low labour cost**: The cost of labour in India was comparatively lower than developed nations. This attracted multinational companies to outsource their business service activities in India. Hence, the service industry was rapidly grown with the companies who identified the importance of business outsourcing process such as training, teaching and marketing to improve their business performance.
- **Growth of Information Technology (IT)**: Growth of the service sector was highly stimulated by the growth of information technology (IT) in India. IT helped perform vital service businesses of the country. Highly skilled software resources are found in India. Many state governments such as Andhra Pradesh, Madhya Pradesh, Karnataka, Maharashtra and Delhi emphasised on the importance of the IT sector.
- **Structural changes**: Structural changes were taking place in the Indian economy, i.e. transformation from the primary sector to the tertiary sector. This transformation caused an

increase in the demand for the service sector.

- **Market orientation**: The manufacturing sector faced many changes in the competitive condition and demand-supply forces in the market. This diverted their attention from production to market orientation. Further, it forced manufacturing organisations to conduct marketing research, accounting, auditing, human resource management, and research and development institutions to analyse market conditions. These were entirely service-based functions.