Gujarat Board Textbook Solutions Class 11 Economics Chapter 8 Economic Reforms

1. Choose the correct option for the following from the options provided :

Question 1. From which year the economic reforms of LPG were introduced in India?
(A) 1947
(B) 1951
(C) 1991
(D) 1980
Answer:
(C) 1991

Question 2. From which year was FEMA introduced in India?
(A) 1973
(B) 1980
(C) 1991
(D) 1999
Answer:
(D) 1999

Question 3. In the recent times which of the following area is reserved for exclusive investment by the public sector?
(A) Fertilizer
(B) Television
(C) Automobile
(D) Railway
Answer:
(D) Railway

Question 4. What is the policy of producing the goods domestically which are similar to imports called?
(A) Privatization
(B) Liberalization
(C) Import substitution
(D) Globalization
Answer:
(C) Import substitution

Question 5. What is the investment made by foreign companies in our country called?
(A) FERA
(B) FEMA
(C) FDI
(D) NRI

Answer:
(C) FDI

2. Answer the following questions in one sentence :

Question 1. Give the full form of FERA.
Answer:
Foreign Exchange Regulatory Act

Question 2. Give the full form of FEMA.
Answer:
Foreign Exchange Management Act, 1999

Question 3. Give the full form of FDI.
Answer:
Foreign Direct Investment (FDI)

Question 4. Give the meaning of liberalization.
Answer:
Liberalization refers to 'Increasing the role of private sector and market oriented processes in economic planning in place of state regulated economic processes in India's mixed economic system'.

Question 5. Give the meaning of globalization.
Answer:
The process of increasing a country's economic integration with the rest of the world by increasing trade in goods and services, increasing movement of physical and financial capital, increasing exchange of technology and increasing investments between the countries is called globalization.

Question 6. Give the full form of FII.
Answer:
Foreign Institutional Investor (FII)

3. Answer the following questions in short :

Question 1. Give the meaning of and components of economic reforms.
Answer:
Economic reforms:
Economic reforms refer to The changes brought about in economic policies since 1991 in order to change the economic system of India from one which / was highly regulated by the state to one which is more market oriented. At the same time also reduce the extent of public sector in the mixed economic system.'

Components of economic reforms:
The economic reforms focused on three main components. They are:

1. Liberalization,
2. Privatization and
3. Globalization.

Question 2. Give the full form of MRTP and state the reasons behind the formulation of this act.
Answer:

- MRTP Act means Monopolies and Restrictive Trade Practices Act, 1969.
- This act was framed to prevent enterprises from growing in large scale and establish monopolies.
- Later, MRTP Act was replaced by Competition Act, 2002 which aimed at reducing unhealthy competition among enterprises arising due to MRTP act.

Question 3. Give the meaning and types of disinvestment.
Answer:
Disinvestment:

- The process wherein the state either reduces its share of investment in a public enterprise or withdraws its investment completely by selling its shares to the private sector is called disinvestment.
- In other words, the process by which the state 'disinvests' from public enterprises is called disinvestment.

Types:
(A) Partial disinvestment and
(B) Complete disinvestment.

Question 4. Explain the reasons which compelled India to adopt reforms in 1991.
Answer:

- After independence, India adopted a mixed economic system with focus on socialist pattern of planning.
- By 1980s, many experts felt that the planning strategies adopted between 1947 and 1990 failed to attain the goals of economic growth and development.
- They believed the main reason for the failure was that the states imposed several unnecessary regulations on economic activities which then restricted people from doing economic activities. This raised a need for bringing reforms in the economy to improve it.

- Moreover, in the early 90s the international monetary organizations that were controlled by the developed nations of the world imposed a condition on India for providing monetary assistance.
- As per the condition, until India reduces its excessive and unnecessary / controls on economic activities, it should not be provided any financial assistance.
- India's imports were quite high compared to its exports. This caused a severe deficit in India's 'balance of trade' and India had to borrow a lot of foreign exchange from international institutions.
- Under all these circumstances India had no choice but to bring reforms and transform the nation. Hence, India was compelled to bring economic reforms.

Question 5. Give a short explanation about Foreign Institutional Investment.
Answer:
Those foreign companies that invest in financial institutions and bond/ stock/share markets of another country are called Foreign Institutional Investors (Fll). Such an investment is also called portfolio investment.

- Fils are the big companies such as investment banks, mutual fund houses, etc. who invest considerable amount of money in the Indian markets.
- Such companies have to register in India as Foreign Institutional Investors. Then they buy such stocks from the bond/share market of India.
- Thus, instead of investing in plant and machinery in another country like India these companies invest in the financial market.

4. Answer the following questions in brief points :

Question 1. Give the meaning and important aspects of the process of globalization.
Answer:
Globalization:

- The process of increasing a country's economic integration with the rest of the world by increasing trade in goods and services, increasing movement of physical and financial capital, increasing exchange of technology and increasing investments between the countries is called globalization.
- The process of globalization can be done by gradually decreasing the policy controls that restricts and slows foreign trade.

Process of globalization in India:

- In 1991, International Monetary Fund (IMF) declared a list of several nations who had taken enormous loans from IMF. The IMF forced those countries to globalize and upgrade the technologies and hence grow their nations. Until the countries did this, the IMF would not give any further loans.

- India was one of those countries. Hence, India had to relax its policies of providing undue protection to domestic industries from foreign competition. Thus began the process of globalization in India and India allowed its people ; to conduct more trade with other nations.

Question 2. Give the meaning and nature of Foreign Direct Investment.
Answer:
Foreign Direct Investment (FDI):

- When the home country invites capital from foreign countries by allowing * foreign investors/companies to produce and sell directly in India than such an investment is called foreign direct investment (FDI).
- In FDI, foreign companies directly set up their business in India by constructing their plants, bringing in technology and producing or by collaborating with Indian companies for the same.
- These companies either manage the entire business or have a partial control in management in case if they are collaborating partners.
- For example, Vodafone fully owns its business in India. Similarly, in Tata-AIG insurance company, AIG which is a foreign company has collaborated with Tata in India.
- India has systematically allowed FDI in increased proportion in various sectors and hence India's foreign exchange earnings have increased.

Nature of Foreign Direct Investment:

- It is a physical establishment in the form of direct investment and hence a stable form of investment.
- It brings machines, materials and wealth to the home country.
- It brings new technology to the country.
- It brings a different work culture.

Question 3. State the challenges before the foreign trade policy of India.
Answer:
India faces significant challenges in the area of trade policy—the global economic slowdown, increasing protectionism, the stalled mega-trade deals that could in time be revived, and perhaps more important, its own domestic pre- occupations.

Question 4. Explain the foreign trade policy after globalization.
Answer:
India's foreign trade policy after globalization (1991) :

- Though India made progress after independence, it was heavily indebted to international financial institutions. It was forced by the International Monetary Fund (IMF) to adopt economic reforms and undergo globalization.

- Hence, in 1991 India reformed its economic policies to boost trade and investments.
- India left its old and restricted foreign trade policy and adopted a new, bold and outward trade policy.
  India also allowed its currency i.e. Indian Rupee should be converted into foreign currencies at market rates from the earlier method of converting at official rates. ’
- It made import-export licensing easy. Today, strict licensing method exists only for crude, edible oils and chemical fertilizers.
- With promotion of FDI and privatization, foreign companies can now sell variety of goods in India.
- After globalization India’s trade with non-traditional trade partners i.e. new countries increased.
- The new trade policy aimed at increasing India’s percentage share in world trade.
- India became a member of World Trade Organization (WTO) in 1995. India changed its trade policy according to the rules framed by WTO. For example, India made changes in import-export rules for agricultural goods, trade related investment measures, etc.

Question 5. State the adverse effects of economic reforms.
Answer:
Unfavourable effects of economic reforms:
1. Small and cottage industries could not withstand competition from multinational companies.

2. Globalization stated along with privatization. Before the Indian private sector companies could become efficient and modern, they started facing competition from foreign companies. Some Indian companies even suffered a setback.

3. Government reduced subsidies in many sectors. Hence services of these sectors became expensive.

4. Exchange rate determination i.e. determining value of Indian currency in line with foreign currencies was left to the market. Hence, rather than bringing Indian rupee under control it fluctuated more. Many companies suffered due to such fluctuations.

5. Some foreign companies started selling their goods at abnormally low prices in India. As a result many Indian companies selling similar goods received a setback since they could not produce and sell at such low prices. Such a method of foreign companies to sell the goods at very low price in large quantities is called ‘dumping’.

6. Many policies of World Trade Organization imposed strict quality measures. This made export difficult for countries like India especially for exports of agricultural goods.

7. India could not efficiently increase its infrastructural facilities like electricity, roads, etc. to cope up with the speed of privatization and globalization.

8. Inequalities of economic power increased.

9. The production and sale of life style goods increased compared to goods of basic needs.

10. Some people believe that the social and cultural foundations of India are threatened because of globalization.

5. Answer the following questions in detail :

Question 1. Give the meaning of liberalization and explain the changes which came about with it in India.
Answer:
Process of liberalization in India:

- India implemented the policy of liberalization gradually and systematically.
- In the initial phase, India Simplified the rules of investment for domestic producers and investors and later for foreign investors.
- Similarly, initially the government opened the sector of consumer goods for investment by foreign companies and then service sector and finally the financial sector. ’
- To transform the idea of economic reforms into reality required several systematic changes in the policy regulations.

Some important regulatory changes made by the Indian legislature in this regard are discussed below:
1. MRTP Act was replaced by Competition Act.

- The full form of MRTP is Monopolies and Restrictive Trade Practices Act, 1969. This act prevented enterprises from growing in large scale and establish monopolies.
- To resolve this, the government replaced MRTP Act with competition Act. Competition Act, 2002 was an act that aimed at reducing unhealthy competition among enterprises.

2. FERA was replaced by FEMA. Moreover, the word ‘Regulatory’ was removed from FERA and was replaced by the word ‘Management’.

- The full form of FERA is Foreign Exchange Regulation Act, 1973. This act regulated earnings from foreign exchange and transactions of enterprises.
- FEMA means Foreign Exchange Management Act, 1999. This act manages earnings from foreign exchange and transactions of enterprises instead of regulating them.

3. Major changes were made in the industrial policy. One of the noteworthy changes was opening those areas for the private sector in which initially only the public sector was allowed to invest.

- Currently, only three sectors are reserved for the public sector namely, atomic energy, some minerals related to atomic energy and railways.
- Another noteworthy change was that the government raised the limit of investment for small-scale units. This helped such units to modernize and produce faster and better.

4. The procedure for foreign investment became more investor-friendly. ‘ ‘Automatic licensing route’ was introduced in many sectors so that foreign companies could easily invest in India.

5. Government announced relaxations in the industrial policy as well as relaxation in export-import rules.

- Foreign exchange was allowed to be converted at market rates instead of the earlier method of convertibility only at the official rates.
- To change the fiscal policy, government tried to remove expenditure on subsidies.

Question 2. Evaluate the effects of the economic reform process of India which began in 1991.
Answer:
Evaluation of economic reforms after almost 25 years of its implementation since 1991 can be done in two parts as discussed below:

(I) Favourable effects of economic reforms:
The reforms in the economic policy that took place in the form of liberalization, privatization and globalization increased the importance of market forces of demand and supply.

- As a result, determination of prices, wages and interest became market oriented, more realistic and less regulated.
- Due to reduction in regulations, producers started making decisions regarding production, investment and distribution on the basis of market trends.
- The difference between domestic and foreign investments became narrow.

All these gave rise to various favourable effects for India which are discussed below:

- Consumers started getting a variety of goods of international quality that too easily and at reasonable prices.
- India’s foreign exchange reserves increased.
- India’s exports increased.
- Along with increase in FDI, the risk of certain investments and debt burden of the state for importing costly technology etc. reduced.
- Large scale investments increased in the private sector. This in turn increased production and employment.

- Factors of production became more mobile within the nation and also between nations.
- During the period of too many regulations, corruption, bureaucratic hurdles, delayed decisions and rigid administration were quite common. All these have gradually reduced after reforms.
- There are certain sectors which are quite significant for the growth and development of the nation. However, these were neglected due to scarcity of capital and government regulations.
- These sectors got a boost after reforms when private sector was allowed to invest in them. For example, natural gas pipelines, roadways, modernization of railways, etc.
- Shortage ot goods and services were overcome. In fact many more varieties of goods and services came to market.
- Social and cultural ties with other nations improved.

(II) Unfavourable effects of economic reforms:

1. Small and cottage industries could not withstand competition from multinational companies.

2. Globalization stated along with privatization. Before the Indian private sector companies could become efficient and modern, they started facing competition from foreign companies. Some Indian companies even suffered a setback.

3. Government reduced subsidies in many sectors. Hence services of these sectors became expensive.

4. Exchange rate determination i.e. determining value of Indian currency in line with foreign currencies was left to the market. Hence, rather than bringing Indian rupee under control it fluctuated more. Many companies suffered due to such fluctuations.

5. Some foreign companies started selling their goods at abnormally low prices in India. As a result many Indian companies selling similar goods received a setback since they could not produce and sell at such low prices. Such a method of foreign companies to sell the goods at very low price in large quantities is called 'dumping'.

6. Many policies of World Trade Organization imposed strict quality measures. This made export difficult for countries like India especially for exports of agricultural goods.

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8. Inequalities of economic power increased.

9. The production and sale of life style goods increased compared to goods of basic needs.

10. Some people believe that the social and cultural foundations of India are threatened because of globalization.

Question 3. Give the meaning of privatization and explain its process in India.
Answer:
Privatization:

- The process of privatizing publicly owned enterprises and hence increasing the size of the private sector is called the policy of privatization.
- In India, the public sector enterprises are owned and managed by the state i.e. government. Hence, privatization means process of transferring ownership of economic enterprises from public sector to private sector either partially or fully.

Privatization can take place in the following ways:

1. Through disinvestment
2. Reducing the number of areas in which only public sector can invest and allow private sector to invest in those areas.
3. By establishing public-private partnership businesses.

A detailed description for the process of privatization is discussed below:
Meaning and process of disinvestment in India:

(A) Disinvestment:

- The process wherein the state either reduces its share of investment in a public enterprise or withdraws its investment completely by selling its shares to the private sector is called disinvestment.
- In other words, the process by which the state 'disinvests' from public enterprises is called disinvestment.

(B) Process of disinvestment:
The process of disinvestment consists of following two aspects:

1. Complete disinvestment:
The act of selling all the shares of the state in a public enterprise to the private sector is called complete disinvestment.

2. Partial disinvestment:

- The act of selling some shares of the state in public enterprises to the private sector for example, 29% or 49% is called partial disinvestment.
- When the state transfers less than 51% shares to private sector it is called minor disinvestment.

However, if the state transfers more than 51% shares to private sector then it is called major disinvestment

1. Over and above owning public enterprises, the state also controlled certain areas of investment.

- Also, the private sector was not allowed to invest in certain areas of strategic importance and public utility. However after privatization in 1991, government opened most of these areas for the private sector.
- These areas included banking, education, communication, transportation, etc. Both private as well as foreign companies were allowed to invest in these areas then.

2. Presently, the state controls and does not allow private investment only in few specific areas like atomic energy, certain minerals related to atomic energy, railways and defence.

3. After independence there was a significant rise in the number of public sector enterprises under the central government. However, after 1991 they did not rise much.

- On March 31, 1951 there were only 5 public sector enterprises under central government. The number rise to 233 in 1990, 217 in 2010 and 300 in 2015.
- Even today, the process of disinvestment from old enterprises continues and simultaneously the state also establishes new enterprises.