NCERT MOST IMPORTANT QUESTIONS CLASS – 11 Economics CHAPTER – 3 Liberalisation, Privatisation and Globalisation: An Appraisal

Q1. What is the other name of the World Bank?

a) Federal Bank

b) ICICI

c) IBRD

d) Bank of America

Ans: (c) The International Bank for Reconstruction and Development is another name for the World Bank. The International Bank for Reconstruction and Development is its new name.

Q2. What is meant by disinvestment?

Ans: Disinvestment is the sale or liquidation of an asset or subsidiary by an organization or government. During disinvestment, the government company typically retains 26 percent or 51 percent of the stock, while the rest of the share is transferred to the concerned strategic partner.

Q3. What are the things included in foreign investment?

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

Q4. What are the sources of direct taxes?

Ans: Direct taxes are those in which the burden cannot be transferred to others. Income tax, corporate tax, gift tax, and so on.

Q5. What is meant by WTO?

Ans: The World Trade Organization (WTO) was established in 1995 as the successor organization to the General Agreement on Tariffs and Trade (GATT). The World Trade Organization (WTO) is expected to establish a rule-based trading regime in which nations cannot impose arbitrary trade restrictions.

Q6. 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

Ans: (d) All of the above.

Q7. 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.

Ans: Both (a) and (d) are correct.

Q8. Give the meaning of Privatisation.

Ans: Privatization refers to the process of transferring a business or industry from the public to the private sector. This is known as denationalization and destatization.

Q9. What is meant by Globalisation?

Ans: Globalisation entails the transformation of local and nationalistic perspectives into a broader perspective of an interconnected and interdependent world with free capital, goods, and services transfer across national borders.

Q10. For which contribution is PC Mahalanobis regarded highly by statisticians and economists all over the world?

Ans: Prasanta Chandra Mahalanobis is widely regarded as the "Father of Indian Statistics" because of his guidance to the evolution of statistical studies which acts as a vital tool for policy planning or we can say as an architect of developmental planning.

Q11. What benefit goes to domestic Industries of reduction in tariff?

Ans: The main advantages are that imports have become less expensive and that profit margins on exports have increased for domestic industries.

Q12. What are the indirect taxes? Give two examples.

Ans: These are taxes that are levied indirectly on the individual's expenses rather than directly on his or her income. Service tax, excise and customs duty, VAT, entertainment tax, and so on. The majority of taxes are now merged and referred to as GST (goods and service tax).

Q13. 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

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

Q14. What is fiscal policy?

Ans: Fiscal policy is the process by which a government adjusts its spending levels as well as taxes in order to monitor & influence the economy of the nation. It is a monetary policy strategy in which a central bank influences a country's money supply. Tax cuts and increased government spending are two major examples of expansionary fiscal policy.

Q15. State the meaning of economic reforms.

Ans: It refers to the policies that are implemented to ensure competitive markets, increased production efficiency, and rapid economic growth.

Q16. 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.

Ans: Economic reform has had a mixed impact on agriculture. In terms of food grains, India has achieved near self-sufficiency. Both the green revolution and agricultural liberalization in India have had a positive impact on both overall and agricultural GDP. Agriculture was expected to remain the most important sector of the economy in terms of GDP proportion for the rest of the decade in the mid-1990s. Even if agriculture is not the largest contributor to GDP, its importance is unlikely to diminish due to its critical role in providing food, wage goods, employment, and raw materials to industries. Despite their preoccupation with industrial development, India's planners and policymakers were forced to recognize agriculture's critical role in the early 1990s by changing basic policy. Gains in agricultural production should not be mistaken for complacency.

Q17. Throw some light on Sircilla Tragedy.

Or

What is the Siricilla Tragedy?

Ans: Andhra Pradesh's Siricilla is a well-known handloom industry center in India. The Siricilla Tragedy refers to the suicide of 50 handloom workers, which shocked the country. The power loom weavers of Siricilla textile town in Karimnagar district, who have yet to recover from the impact of FSA (Fuel Surcharge Adjustments), are now facing a crisis of unemployment and power loom closures, with traders cutting off raw material supplies due to the rise in the price of polyester yarn. Suicides among weavers and owners of power looms are not uncommon. In terms of price, quantity, or quality, the Siricilla power looms could not compete with these modern looms. Sales fell and stocks rose, as did the amount of interest owed on bank loans. According to Siricilla, there are two types of looms: power looms and handlooms. Materials worth over Rs.2 crores are said to have been lying in godowns for the last two years.

Q18. Is India able to show its global footprint?

Or

How much do you know about India's global footprint?

Ans: After several years of turbulence and volatility in the global economy, signs of growth and stability can be seen. The International Monetary Fund expects global growth to accelerate to around 3.5 percent over the next two years, led by emerging economies. At the same time, political conditions appear to be shifting, and there is a distinct anti-globalization sentiment. Many Indian companies expanded their wings to other countries after globalisation began in India. Many Indian private and public companies, such as ONGC Videsh, Tata Steel, Birla Group, Adani Group, Reliance, and others, now have a global presence. Global growth conditions have become a critical factor in India's progress. The recent subdued environment has had a direct impact on our growth story. This is a difficult time for Indian industry, which is looking to international markets for both trade and investment opportunities. Despite all of the obstacles on the domestic front caused by infrastructure gaps and financing issues, Indian industry is eager to integrate itself into the dynamic global value chain. The government is actively promoting India's international relations. Prime Minister Narendra Modi has visited over 50 countries and signed a number of agreements aimed at increasing trade and investment. Defence has emerged as a key sector of cooperation, as India has liberalized its defense manufacturing sector and is encouraging global majors to participate in order to help it develop into a manufacturing hub for defense equipment equipped with relevant technologies. Such interactions expand Indian industry's global footprint. As the world adjusts to new realities, India has the opportunity to expand its presence in a variety of manufacturing and service sectors.

Q19. What are the Navratnas Companies of India?

Ans: In 1997, the government conferred the Navratna status on nine Public Sector Enterprises (PSEs). Thus, they'll have more freedom to compete in the global market because they will be supported in their quest to become global giants. There are currently 17 companies with the Navratna status. To name a few, Bharat Heavy Electricals (BHEL), HAL, NTPC, Oil India Ltd, MTNL, and others. In 1997, the government launched the Navratna scheme to identify CPSEs with comparative advantages and support them in their quest to become. The following are the requirements for obtaining the Navratna status:

(a) The company must achieve a minimum score of 60 out of 100 on various parameters such as net profit and net worth, total manpower cost as well as total cost of production, cost of services, PBDIT (Profit Before Depreciation, Interest, and Taxes), capital employed, and so on.

(b) It must have Miniratna status.

(c) Its board should include at least four independent directors.

(d) The company must spend up to Rs. 1,000 crore, or 15% of its net worth, on a single project or 30% of its net worth for the entire year (not exceeding Rs. 1,000 crores).

Q20. What is India's export – import policy?

Ans: The Central Government develops and announces foreign trade policy (Ministry of Commerce). Foreign Trade Policy, also known as EXIM Policy, is a set of guidelines as well as instructions established by the DGFT i.e Directorate General of Foreign Trade in matters pertaining to goods import and export in India. In 2015, foreign trade accounted for 48.8 percent of India's GDP. Indian EXIM Policy encompasses various policy decisions made by the government in the field of Foreign Trade, specifically with regard to imports and exports from the country, as well as export promotion measures, policies, and procedures. Export is known as the sale of goods & services to other countries, whereas import refers to the purchase of goods and services from other countries. In this day and age of globalization, no economy can afford to be isolated from the rest of the world. All developed and developing economies rely heavily on exports and imports for economic development. With the expansion of international organizations such as the World Trade Organization, UNCTAD, ASEAN, and others, global trade is expanding at a rapid pace. The current policy is known as the India New Foreign Trade Procedure 2015-2020 or the India New Foreign Trade Policy (Exim Policy) 2015-2020.

Q21. 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?

Ans: The year 1991 is significant in the economic history of post-independence India. The country experienced a severe economic crisis as a result of a serious Balance of Payments situation. The crisis was used to introduce some fundamental changes in the content and approach to economic policy. As a response to the crisis, the policies aimed at stabilisation and structural reform were implemented. Former Prime Minister Manmohan Singh is widely regarded as the father of India's New Economic Policy. The thrust of the NEP i.e New Economic Policy has been to create a more competitive environment in the economy in order to improve the system's productivity and efficiency. This was to be accomplished by removing entry barriers and restrictions on firm growth.

New Economic Policy is of three types:

1. Liberalisation

2. Privatisation

3. Globalisation

Strengths of New Industrial Policy, 1991:

The economy is said to enter into a new phase which is described as "reform by storm," replacing the approaches of "reform by stealth" in the latter half of the 1970s and "reform with reluctance" in the second half of the 1980s.

- The New Industrial Policy, through various provisions, set fire to the industrial licensing system. A shift away from extensive physical controls has occurred, with a greater emphasis on the role of financial incentives in channeling investments in the desired direction.
- Significant internal deregulation is taking place in order to strengthen more efficient domestic firms and encourage them to invest and expand.
- Efforts have also been made to strengthen the legal framework. The SARFAESI Act, 2002 i.e Securitisation, Reconstruction of Financial Assets, and Enforcement of Security Interest Act of 2002, empowers the banks as well as financial institutions in order to enforce their claims on collateral for delinquent secured credit without going through a lengthy as well as time-consuming legal process.
- One distinguishing feature of India's policy reform process is that it is gradualist, as opposed to the "big bang" approach used in some other countries. The system is facing much greater pressures for efficiency and modernization, but at a slower pace.

Major Weaknesses of New Industrial Policy, 1991:

- With limited export incentives and regulated labor markets, there appears to be little reason to believe that today's infants will provide a growth engine consistent with current targets.
- There is concern about the slow pace of investment in many fundamental and strategic industries such as engineering, power, machine tools, and so on. This is primarily due to the low rate of return in these sectors, which is lower than the rate of return in new or "sunrise" industries (e.g. IT sectors).
- Restructuring and modernization of industries as a result of the new industrial policy frequently results in labor displacement. This would necessitate the redeployment of labor through rehabilitation programs.
- A focus on internal liberalisation without a sufficient emphasis on trade policy reforms resulted in 'consumption-led growth' rather than 'investment-led growth' or 'export-led growth.' As a result, the resulting growth process was not long-term sustainable.
- The liberalisation policy appears to have failed to achieve one of its main goals, namely the creation of more innovative firms.

Q22. Define the term outsourcing. How much has India benefited?

Or

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

Ans: Because of its ability to adapt to changing needs, India remains the leading outsourcing destination. According to NASSCOM, (National Association of Software and Service Companies), the apex body of India's premier IT software and service (IT & BPO) companies, India's share of the global outsourcing market increased from 51% in 2009 to 55% in 2010. India continues to stand out for its customer service and efficiency, so its future looks promising.

(Image will be uploaded soon)

Following Points Focus Why India is First Choice in Outsourcing World:

- Customers today seek not only cost-effective solutions for their outsourced business, but also skilled personnel, increased productivity, service quality, and business process excellence. With its large population and multi-skilled workforce, India will continue to be favored for both backend and front-end outsourcing.
- Outsourcing is known as the business practice of hiring a third party to perform the services as well as create goods that were used to perform in-house
- India continues to be unrivaled with respect to its skilled as well as talented human resources. It has a population of over 1.2 billion people, and each year, approximately 3.1 million graduates enter the labor force. India is also the world's largest English-speaking country, larger than the United States and the United Kingdom combined.

- The significant cost savings in the country that companies can achieve is one of the reasons why India remains a top outsourcing provider. This is primarily due to the large disparity in personnel costs between India and developed countries. In the United States, for example, a good developer can charge between 50and50and80 per hour (for a full-time staffer depending on skills and experience). In comparison, the hourly rate of the developer in India can be negotiated down to as low as $15/hour.
- While cost is an important factor in outsourcing, the consistently high quality provided by Indian outsourcing firms has also allowed India to maintain its position as the top outsourcing destination. In its Annual Offshore Outsourcing Conference, the National Outsourcing Association (NOA) reflected on a common trend among international companies that choose India as their preferred outsourcing destination.
- The Indian outsourcing industry is considered to be supported by a stable pro-IT government whose economic, GDP growth, taxation, power, telecom, industrial parks, and special zones policies have aided in the improvement of infrastructure and communications systems.
- The Indian government has aided the IT industry by providing various tax-related and other benefits, as well as enacting the Information Technology Act, which recognizes electronic contracts, prohibits cybercrime, and encourages document e-filing.

Q23. 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?

Ans: Disinvestment refers to the dilution of the government's stake in a public enterprise. This can be accomplished in two ways. When the government sells less than 50% of its equity in a public enterprise, it is referred to as disinvestment, and control and management of the business enterprise remain in the hands of the government. Privatisation occurs when the government's disinvestment or sale of its equity capital exceeds 50%, transferring majority ownership and thus control and management of the enterprise to private enterprise. As a result, in many disinvestment programs, the government retains 51% or more of the total equity capital of public enterprises, retaining control and management. The public sector is underinvesting because the government's resources are limited. The government requires resources in order to reduce its budget deficit. Second, the government urgently needs resources to invest in infrastructure, social sectors such as education and public health, and poverty-relief programs. Several economists have proposed using the proceeds of disinvestment to retire a portion of the public debt. Disinvestment, particularly privatization of public-sector enterprises, will ensure that their operations are governed by professional managers guided by market mechanisms rather than being administered by bureaucrats.

Disinvestment of Public Enterprises Can be Made in a Number of Ways:-

- The entire public enterprise can be sold to the highest bidder or another private sector firm. In this case, the private firm gains ownership as well as control or management.
- The second method of disinvestment in a public enterprise is to sell a portion of the government stake to a strategic private company. A strategic company is one that has a strategic interest in the public sector and the ability to run it efficiently.
- Finally, a limited number of government shares in a public enterprise can be sold through an auction of shares among a limited number of private firms. Merchant bankers can help determine the reserve price of a company's shares for auction.

Q24. What are the major factors responsible for the high growth of the service sector?

Or

Enumerate the Reasons Responsible for the Shining Service Sector of India.

Ans: The services sector in India encompasses a wide range of activities, including trade, hotel and restaurant operations, transportation, storage and communication, financing, insurance, real estate, business services, community, social, and personal services, and construction-related services. It is not without reason that India's dominant services sector is referred to as the economic engine. Globalization and increased manufacturing automation have reduced the relative demand for manufacturing jobs in advanced economies. Because of the increased supply, this frees up labor for the service industry and puts downward pressure on wages in the less skilled parts of that sector. More students are opting for degrees in finance and business for higher skilled parts of the service sector, but they are discovering that deregulation of the banking industry has created more high paying opportunities in things like the investment banking segment, rather than 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:** MNCs were able to enter the Indian market after economic reforms were implemented in 1991. It removed restrictions on foreign investment and allowed for the inflow of foreign capital. Foreign direct investment has increased dramatically as a result of the government's liberalized policy. It brought about a number of changes in the Indian market.

- **Low Labour Cost:** India's labor costs were lower than those of developed countries. This enticed multinational corporations to outsource their business services to India. As a result, the service industry grew rapidly with companies that recognized the value of business outsourcing processes such as training, teaching, and marketing in improving business performance.
- **Growth of Information Technology (IT):** The expansion of information technology (IT) in India has greatly aided the growth of the service sector. IT aided the country's vital service businesses. The country also has a large number of highly skilled software resources. Many state governments, including those in Andhra Pradesh, Madhya Pradesh, Karnataka, Maharashtra, and Delhi, have highlighted the importance of the IT sector.
- **Structural Changes:** The Indian economy was undergoing structural changes, such as a shift from the primary to tertiary sectors. The service sector saw an increase in demand as a result of this transformation.
- **Market Orientation:** The manufacturing sector experienced numerous changes in the market's competitive environment and demand-supply forces. This shifted their focus from production to market orientation. Furthermore, it required manufacturing companies to conduct marketing research, accounting, auditing, human resource management, and research and development organizations to analyze market conditions. These were solely service-oriented functions.