CBSE Class 12 Economics

Indian Economic Development — Chapter 3: Liberalization, Privatization, and Globalization: An Appraisal

Board	CBSE & State Boards	**Subject**	Economics (Class 12)
Book	Indian Economic Development	**Chapter No.**	Chapter 3 (LPG: An Appraisal)

Q. No. 1) Multiple Choice Questions (MCQ)

i. Which of the following can help reduce the fiscal deficit?

a. increasing subsidies
b. increasing the PSU profits
c. investing in improving public goods
d. decreasing the burden and incidence of tax

Ans. Option (b)

ii. ……………. was the Indian Finance Minister in 1991, acknowledged for his capabilities to steer away the economic crisis looming large on the erstwhile Indian Economy.

a. Dr. Subramanian Swamy
b. Pranab Mukherjee
c. Dr. Manmohan Singh
d. Dr. Urjit Patel

Ans. Option (c)

iii. Which of the following statements correctly represents actions taken by the government towards liberalization?

P: levying high tariffs to discourage import and promote the consumption of domestic goods and services
Q: devaluation of the rupees to encourage the inflow of foreign exchange
R: allowing for private banks to make decisions independent of the RBI restrictions
S: fixing prices of certain industrial goods in order to support increased consumption of these goods to boost the manufacturing industry

a. P and Q only
b. P and R only
c. Q and R only
d. Q and S only

Ans. Option (c)

iv. Which of the following policies was adopted to increase the competitive position of Indian goods in the international markets?

a. export duties were removed

b. import licensing was abolished

c. the rate of corporation tax was reduced

d. Foreign Institutional Investors (FII) were allowed to invest in India

Ans. Option (a)

v. Read the following statements: Assertion (A) and Reason (R). Choose the correct alternative from those given below.

Assertion (A): In 1991, as an immediate measure to resolve the Balance of Payments crisis, the rupee was devalued against foreign currencies.
Reason (R): Devaluation of currency was eminent to lead to the inflow of foreign exchange.

a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

b. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

c. Assertion (A) is true, but Reason (R) is false.

d. Assertion (A) is false, but Reason (R) is true.

Ans. Option (a)

vi. There are two statements given below, marked as Assertion (A) and Reason (R). Read the statements and choose the correct option.

Assertion (A): The Devaluation of the Indian rupee in 1991 resulted in the inflow of foreign exchange.
Reason (R): The Devaluation of the Indian rupee was a step taken to get more foreign investments.

a. A is true but R is false.

b. A is false but R is true.

c. Both A and R are true and R explains A.

d. Both A and R are true but R does not explain A.

Ans. Option (a)

vii. Which of the following falls under the role of the World Trade Organisation?

a. setting the limit for domestic and foreign investments in a country

b. mandating the level of tax levied on foreign firms in developing countries

c. aiding the development of poor countries by providing infrastructural investment

d. providing a platform for member countries to decide future tariff-related strategies

Ans. Option (d)

viii. There are two statements given below, marked as Statement (1) and Statement (2). Read the statements and choose the correct option.

Statement (1): Air India, a fully owned Public Sector Undertaking (PSU) was disinvested and sold to a private entity.
Statement (2): Public Sector Undertakings (PSU) are sold to create more direct and/or indirect employment opportunities in the country.

a. Statement 1 is true and Statement 2 is false.
b. Statement 1 is false and Statement 2 is true.
c. Both statements 1 and 2 are true
d. Both statements 1 and 2 are false

Ans. Option (c)

ix. Read the following statements - Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

Assertion (A): Every year government fixes a target for disinvestment of Public Sector Enterprises (PSEs).
Reason (R): Disinvestment is an excellent tool for discarding the loss incurring Public Sector Enterprises (PSEs).

a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
b. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
c. Assertion (A) is true but Reason (R) is false.
d. Assertion (A) is false but Reason (R) is true.

Ans. Option (b)

x. There are two statements given below, marked as Assertion (A) and Reason (R). Read the statements and choose the correct option.

Assertion (A): According to the Government of India, the disinvestment of Public Sector Enterprises has brought accountability and professionalism to them.
Reason (R): The Government of India used disinvestment mainly to improve financial discipline and facilitate modernization.

a. A is true but R is false.
b. A is false but R is true.
c. Both A and R are true and R explains A.
d. Both A and R are true but R does not explain A.

Ans. Option (c)

Q. No. 2) Case Study / Source-Based Questions

> ***Read the following source carefully and answer the questions that follow:***

India's post-1990 economic strategy entailed three important breaks with the past:

1. *To dismantle the vast network of controls and permits that dominated the economic system.*
2. *To redefine the role of the state as a facilitator of economic transactions and as a neutral regulator rather than the primary provider of goods and services.*
3. *To move away from a regime of import substitution and to integrate fully with the global trading system.*

The 1991 reforms unleashed the energies of Indian entrepreneurs and gave untold choices to the consumers and changed the face of the Indian economy. The reform agenda constituted a paradigm shift and has defined the broad contours of economic policymaking for three decades.

Liberalization was adopted as the guiding principle of governance and all governments since 1991, have broadly stuck to that path.

Today we don't need a paradigm shift. We need to look at individual sectors and see which one of these needs reforms to create a competitive environment and improve efficiency. The power sector, the financial system, governance structures, and even agricultural marketing need reforms.

Today's reforms also require much more discussion and consensus-building. The central government needs to work in tandem with state governments and consult different stakeholders impacted by reform decisions. Timing and sequencing are critically important in the new reforms' agenda.

(Source: Excerpts from 'Like 1991, the 2021 crisis presents an opportunity', by C. Rangarajan, 22nd January 2021, livemint.com)

i. According to the given text, ________ was adopted as the guiding principle of governance and all governments since 1991.

a. Modernization

b. Liberalisation

c. Privatization

d. Globalization

Ans. Option (b)

ii. Read the following statements carefully and choose the correct alternatives given below:

Statement 1: 1991 was a landmark moment in India's post-independence history as that changed the nature of the economy in fundamental ways.
Statement 2: India's economic establishment launched a multipronged reforms agenda to repair India's macroeconomic balance sheet and ignite growth.

a. Both statements are true.

b. Both statements are false.

c. Statement 1 is true and Statement 2 is false

d. Statement 2 is true and Statement 1 is false

Ans. Option (a)

iii. Read the following statements - Assertion (A) and Reason (R):

Assertion (A): India's pre-1990 economic strategy dismantles the vast network of controls and permits that dominated the economic system.
Reason (R): The 1991 reforms unleashed the energies of Indian entrepreneurs, gave untold choices to consumers, and changed the face of the Indian economy.

a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
b. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
c. Assertion (A) is true but Reason (R) is false.
d. Assertion (A) is false but Reason (R) is true.

Ans. Option (d)

iv. In the light of the given text and common knowledge, identify the incorrect statement:

a. A severe balance of payments problem triggered an acute economic crisis in 1991.
b. In 1991, the economic and political leadership launched a multipronged reform agenda to repair the macroeconomic situation of the nation.
c. In the post-1991 situation, the state was given the role of primary regulator of the economy.
d. Post-pandemic, individual sectors should be looked at closely. Sectors that need reforms should be identified and corrective action should be taken.

Ans. Option (c)

v. Read the following statements carefully and choose the correct alternatives given below:

Statement 1: Timing and sequencing are critically important in the post-economic reform agenda.
Statement 2: Post pandemic reforms in India require a paradigm shift.

a. Both statements are true.
b. Both statements are false.
c. Statement 1 is true and Statement 2 is false
d. Statement 2 is true and Statement 1 is false

Ans. Option (c)

vi. Read the following statements - Assertion (A) and Reason (R):

Assertion (A): The 1991 reforms released the vitalities of Indian businesspersons.
Reason (R): The reform agenda established a paradigm shift and defined the broad outlines of economic policymaking for years to come.

a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
b. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
c. Assertion (A) is true but Reason (R) is false.
d. Assertion (A) is false but Reason (R) is true.

Ans. Option (a)

Section C: Short & Long Answer Questions

Q. No. 3) Why were reforms introduced in India?

Ans. Economic reforms were introduced in India in 1991 due to the following reasons:

- **A steep fall in foreign exchange reserves:** Foreign exchange reserves, which are generally maintained to import petroleum and other essential items, dropped to levels that were not sufficient for even a fortnight (14 days).
- **An unfavorable Balance of Payments (BOP):** Imports grew at a very high rate without matching the growth of exports, leading to a huge deficit.
- **A huge burden of external debt:** The government was not able to make repayments on its borrowings from abroad, nor was there sufficient foreign exchange to pay interest to international lenders.
- **High rate of price inflation:** Prices of many essential commodities rose sharply, creating economic instability.
- **A huge burden of fiscal deficit:** The revenue from taxation and public sector undertakings was significantly lower than government expenditure incurred on developmental policies, forcing the government to borrow heavily.

Q. No. 4) Discuss briefly any two major steps taken by the Government of India on the "Financial Sector" front under the Economic Reforms of 1991.

Ans. Two major steps taken in the financial sector under the 1991 reforms were:

- **Change in the role of the Reserve Bank of India (RBI):** The role of RBI was reduced from a *regulator* to a *facilitator* of the financial sector. This gave financial institutions greater autonomy to make decision independent of rigid RBI restrictions.
- **Origin of Private Banks:** The reform process led to the establishment of private sector banks of both Indian and foreign origin, increasing competition and efficiency in the banking sector.

Q. No. 5) Why did RBI have to change its role from controller to facilitator of the financial sector in India?

Ans. The RBI changed its role due to the following factors:

- **Economic Liberalization:** In 1991, India began a process of economic liberalization that envisaged a greater role for the private sector. The RBI could no longer strictly control every financial operation as in the past.
- **Globalization:** Integrating the Indian economy with global markets meant the RBI had to align domestic policies with international financial practices and facilitate smooth foreign capital flows.
- **Financial Sector Reforms:** To foster a competitive and efficient banking ecosystem, the RBI shifted to a supervisory and supportive framework rather than direct administrative control.

Q. No. 6) Name any two taxes which were subsumed in Goods and Services Tax (GST).

Ans. Value Added Tax (VAT), Service Tax, Excise Duty, and Sales Tax. *(Any two can be mentioned)*.

Q. No. 7) Those public sector undertakings which are making profits should be privatized. Do you agree with this view? Why?

Ans. This is a debate with arguments on both sides:

Arguments in favor of privatizing profit-making PSUs:

- **Increased Efficiency:** Private management driven by profit motives can enhance operational productivity without bureaucratic delays.
- **Improved Service Delivery:** Private entities are generally more responsive to consumer needs and technology upgrades.
- **Resource Mobilization:** Disinvestment generates huge financial revenues for the government to invest in social infrastructure like education and healthcare.

Arguments against privatizing profit-making PSUs:

- **Loss of Government Revenue:** Profit-making PSUs yield regular dividends to the government exchequer. Selling them means giving up sustained revenues.
- **Social Welfare Compromise:** PSUs operate with socio-economic goals (e.g., affordable access, job reservation), which private players may ignore.
- **Loss of Strategic Assets:** National strategic interests may be compromised if key profit-making assets are controlled entirely by private corporations.

Q. No. 8) Define the following terms: (a) Disinvestment (b) Outsourcing

Ans.

- **a. Disinvestment:** Privatisation of Public Sector Enterprises (PSEs) by selling off a portion or the whole of government equity shareholding to the general public or private entities.
- **b. Outsourcing:** A business practice where an organization hires regular services from external sources, mostly from foreign countries, which were previously performed internally within the country (e.g., IT support, BPO).

Q. No. 9) Name any one Maharatna company.

Ans. Indian Oil Corporation Limited (IOCL). *(Other examples: NTPC, SAIL, BHEL)*.

Q. No. 10) "In the post-reform period, the Government of India decided to retain profit-making Public Sector Undertakings (PSUs). It provided a special status to PSUs to enable them to expand in the global market." Do you agree with the given statement? Give valid reasons in support of your answer.

Ans. Yes, I agree with the statement.
In order to improve efficiency, infuse professionalism, and enable top-performing PSUs to compete globally, the government granted them special status as **Maharatnas, Navratnas, and Miniratnas**.
These statuses granted greater managerial, operational, and financial autonomy to make investment decisions without prior government sanction. As a result, many of these central enterprises modernized, expanded their operations globally, and emerged as leading market players.

Q. No. 11) Amazon has been outsourcing to various customer support companies in India to accommodate more local and international buyers and sellers. In light of the above statement, how has the process of globalization impacted the Indian economy?

Ans. Globalization has impacted the Indian economy in the following ways:

- Generates widespread employment opportunities for skilled English-speaking youth.
- Boosts the country's Gross Domestic Product (GDP) and service sector export earnings.
- Leads to formalization and modernization of the employment and IT-enabled services sector.
- Presents challenges such as lack of job security and limited social security benefits in contract-based BPO jobs.

Q. No. 12) India has certain advantages which make it a favorite outsourcing destination. What are these advantages?

Ans. India became a premier global outsourcing hub primarily due to:

- **Low Wage Rates:** Availability of skilled labor at significantly lower wage costs compared to developed nations.
- **Large Pool of Skilled Manpower:** A vast population of educated, technically proficient, and English-speaking professionals.

Q. No. 13) Why is it necessary to become a member of the WTO?

Ans. Membership in the World Trade Organization (WTO) offers key advantages:

- **Increased Market Access:** Member nations gain non-discriminatory access to international markets, boosting exports.
- **Reduced Trade Barriers:** Mutual agreement to lower import tariffs and non-tariff barriers facilitates smoother global trade.
- **Attracting Foreign Investment:** Clear, predictable trade policies build foreign investor confidence.
- **Access to Advanced Technology:** Enables smoother import of modern technical know-how for domestic development.
- **Rules-Based Trading System & Dispute Settlement:** Provides a multilateral forum to resolve trade disputes fairly.

Q. No. 14) 'The opening up of the Indian Economy has led to a rapid increase in Foreign Direct Investments and Foreign Exchange Reserves of the country'. Defend or refute the given statement.

Ans. The statement is defended (True).

- **Inflow of Foreign Capital:** Total foreign investments (FDI and FII) increased dramatically from around US $100 million in 1990-91 to over US $74 billion in recent years.
- **Accumulation of Forex Reserves:** India's foreign exchange reserves rose from a precarious US $6 billion in 1990-91 to over US $321 billion by 2014-15 (and over $600 billion in recent years), establishing India as a financially resilient economy.

Q. No. 15) “Agriculture sector appears to be adversely affected by the economic reform process.” Explain the given statement.

Ans. The agricultural sector faced severe neglect during the post-1991 economic reforms due to:

- **Reduction in Public Investment:** Government capital expenditure on rural infrastructure like irrigation, power, and rural roads was cut back.
- **Withdrawal of Fertilizer Subsidies:** Subsidy reductions increased input costs, placing a heavy financial burden on small and marginal farmers.
- **Increased Global Competition:** Reduction in import duties on agricultural products exposed domestic farmers to international price volatility and competition.
- **Shift to Cash Crops:** Export-oriented agricultural policy encouraged growing cash crops instead of food grains, leading to inflation in food prices.