

MasterG.Net CBSE Coaching Classes

LIBERALISATION, PRIVATISATION AND GLOBALISATION: AN APPRAISAL

Class XII Economics (Indian Economic Development) • Master Revision Worksheet

Concept Notes + 180-Mark Practice Paper + Complete Answer Key

Student's Name: _____

Date: _____

Roll No. / Batch: _____

Marks Obtained: ____ / 180

How this worksheet is organised

Section	What is inside	Marks
1. Revision Notes	Crisis of 1991, L-P-G in detail, appraisal of reforms, glossary, common confusions, answer-writing tips	-
2. Practice Paper	Part A: 30 MCQs B: 10 Assertion-Reason C: 10 Very Short D: 3 Case Studies E: 10 Short (3 marks) F: 8 Short (4 marks) G: 6 Long (6 marks) H: Rapid-Fire Drills (Match, Fill-ups, True/False)	180
3. Answer Key	Answers for all objective parts; marking-scheme style key points for every descriptive question	-
4. Score Tracker	Part-wise self-evaluation and revision plan	-

Instructions for the student

- **Time allowed: 3 hours 30 minutes** (extended, so that you can revise while you attempt). Maximum marks: 180.
- First read the Revision Notes, then attempt the paper **without looking at the notes or the key**. Write descriptive answers in your notebook.
- Suggested word limits: 3-mark answers about 60 words, 4-mark answers about 80 words, 6-mark answers about 120 words. Point-wise answers score best.
- The mark ★ beside a question shows a theme that boards keep coming back to in one form or another. Attempt every ★ question at least twice before your exam.
- Objective parts (A, B, C, D, H) carry no negative marking. Check yourself using the Answer Key only after finishing.

A note on the sources of questions. The questions in this worksheet are built around the themes, wording patterns and mark-weightage that CBSE board papers have used for this chapter over many years, and are blended with the kind of well-tested practice questions found in standard question banks. Questions are written fresh or adapted rather than copied, and are deliberately **not tagged with a specific year**, because a wrong year-tag is worse than none. Teachers can add exact board-paper year tags from the official papers if needed.

SECTION 1: REVISION NOTES

Read every box once, then close the notes and try to redraw the chapter map from memory.

Chapter map (one-glance revision)

1991 crisis (BoP + fiscal + inflation, forex reserves nearly exhausted) → loan from **IMF and World Bank** → **New Economic Policy (NEP), 1991** (P.V. Narasimha Rao as PM, Dr Manmohan Singh as Finance Minister) → **Stabilisation** (short-term) + **Structural reforms** (long-term) = **L-P-G**:

Liberalisation: industrial, financial, tax, foreign-exchange, trade & investment reforms

Privatisation: withdrawal from ownership/management, disinvestment, PSU autonomy (Maharatna, Navratna, Miniratna)

Globalisation: outsourcing, MNCs, foreign investment, WTO

→ **Appraisal**: achievements (growth, forex, services, exports) vs. concerns (agriculture, industry, jobs, inequality, fiscal).

1. Background: why the reforms became unavoidable

- **Balance-of-payments crisis**: imports were growing faster than exports; foreign exchange reserves fell so low that (as per NCERT) they could finance imports for only about **two weeks**.
- **Rising fiscal deficit and inflation**: government spending far exceeded revenue, borrowing rose, and prices of essential goods climbed.
- **Poor performance of many public sector undertakings (PSUs)**: low returns, inefficiency, losses.
- **Gulf crisis (1990-91)**: sharp rise in oil prices worsened the import bill.
- **Outcome**: India approached the **IMF and the World Bank** and received a loan of about **US\$ 7 billion**. In return it had to agree to open up and liberalise the economy, reduce the role of government in many areas and remove trade restrictions. This led to the **New Economic Policy (NEP), 1991**.

	Stabilisation measures	Structural reform measures
Time frame	Short-term	Long-term
Aim	Correct weaknesses in the balance of payments and bring inflation under control	Improve efficiency of the economy and increase its international competitiveness by removing rigidities in various sectors
Examples	Devaluation of the rupee, controlling inflation, cutting fiscal deficit	Abolition of licensing, dereservation, tax and financial-sector reforms, trade liberalisation

2. Liberalisation: freeing the economy from unnecessary controls

Liberalisation means removing or relaxing government controls, licences and restrictions on economic activity so that private enterprise and market forces can play a larger role.

Reform area	Key changes (memorise these keywords)
Industrial sector	Industrial licensing abolished for almost all industries, <i>except</i> a few (alcohol, cigarettes, hazardous chemicals, industrial explosives, electronics, aerospace, drugs and pharmaceuticals). Number of industries reserved for the public sector cut sharply (17 → 8 in the first round). Many goods made by small-scale industry dereserved . Freedom to expand capacity and choose products without prior approval. Market allowed to determine prices in many industries.
Financial sector	Role of the RBI changed from regulator to facilitator . Banks free to take many lending decisions without RBI approval. Private banks (including foreign banks) permitted; foreign investment limit in banks raised. Banks free to open branches and rationalise branch networks. FIIIs (merchant bankers, mutual funds, pension funds) allowed to invest in Indian financial markets.
Tax reforms	Direct taxes : rates of personal income tax and corporation tax reduced to improve compliance and curb evasion. Indirect taxes : simplified and unified; GST came into effect on 1 July 2017 ('One Nation, One Tax') replacing many central and state levies such as excise duty, service tax and VAT. Tax procedures simplified.
Foreign exchange	First step: devaluation of the rupee (1991) , raising foreign-exchange inflow and making exports cheaper and imports costlier. Then shift to a market-determined exchange rate (demand and supply of foreign exchange decide the rate). Current account convertibility accepted later (1994).

Reform area	Key changes (memorise these keywords)
Trade and investment policy	Quantitative restrictions on imports and exports dismantled (removed for consumer goods and agricultural imports from April 2001). Tariff rates reduced. Licensing of imports removed except for hazardous and environmentally sensitive goods. Export duties removed to make Indian goods competitive. Easier entry for foreign investment (FDI) in many sectors.

3. Privatisation: reducing the role of the state

- **Meaning:** transfer of ownership or management of a public sector enterprise to the private sector. Two routes: (i) government **withdraws from ownership and management** of PSUs; (ii) **outright sale** of PSUs.
- **Disinvestment:** selling a part (or the whole) of the equity of PSUs to the private sector or the general public. It is the main tool of privatisation.
- **Objectives:** improve financial discipline, facilitate modernisation and professional management, raise resources for the government, increase efficiency, encourage foreign investment and technology.
- **Retaining and empowering profit-making PSUs:** to help them expand in global markets, the government granted greater managerial and operational autonomy under the **Maharatna** (highest autonomy), **Navratna** and **Miniratna** categories. Example of a Maharatna company: Indian Oil Corporation.
- **Criticism:** assets of PSUs were said to be undervalued; the proceeds were often used to meet the government's revenue needs rather than for building fresh productive capacity.

4. Globalisation: integrating with the world economy

- **Meaning:** integration of the domestic economy with the world economy through free flow of goods, services, capital, technology and ideas; interlinking and interdependence of countries.
- **Outsourcing:** a company hiring regular services from external sources (mostly from other countries) that were earlier provided within the company. Examples: call centres, BPOs, accounting, legal advice, medical transcription, software services, even teaching. India is a favoured destination because of **low wage rates and a large pool of skilled, English-speaking manpower**.
- **WTO (World Trade Organisation):** established in **1995** as the successor to **GATT** (General Agreement on Tariffs and Trade); headquarters at Geneva. It sets up a **rule-based multilateral trade regime**, provides a forum for negotiations and dispute settlement, and aims to expand production and trade while using world resources optimally. India is a founder member.
- **Benefits:** new and flexible production methods, higher productivity, more exports, modern technology, capital inflow, restructuring production towards goods a country can make efficiently, wider choice for consumers.
- **Concerns:** benefits are uneven; developed countries protect their own markets through non-tariff barriers; small producers face stiff competition; developing countries may have less bargaining power in WTO negotiations.

5. Appraisal: did the reforms work?

Achievements	Concerns / Failures
GDP growth accelerated (from about 5.6% in 1980-91 to a peak of about 8.2% in 2007-12 as per NCERT).	Agriculture: growth decelerated. Public investment (irrigation, power, roads, research, marketing) fell; fertiliser subsidy cut raised input costs; lower import duties and removal of quantitative restrictions exposed farmers to global competition; shift towards export-oriented cash crops put pressure on food-grain prices.
Foreign exchange reserves rose from about US\$ 6 billion (1990-91) to several hundred billion dollars; FDI and FII inflows increased.	Industry: growth slowed. Cheap imports replaced domestic goods; inadequate infrastructure (especially power); developed countries' non-tariff barriers (quality, environmental and labour standards) hurt exports; domestic firms lacked capacity to compete.
Services became the largest contributor to GDP (IT, ITES, finance, telecom, outsourcing).	Employment: 'jobless growth'. Output grew faster than jobs; agriculture (largest employer) stagnated; services growth was skill-intensive; informal work increased.
Exports of goods and especially services (software) grew; India integrated with global markets.	Fiscal and social concerns: tax concessions and tariff cuts reduced revenue; critics argue public investment in infrastructure and social sectors suffered; benefits reached urban/organised sectors more than rural and poor households; income and regional inequalities persisted.

Achievements	Concerns / Failures
Consumers gained from wider choice, better quality and competition; PSUs and private firms modernised.	Disinvestment: alleged undervaluation of PSU assets; proceeds used to plug deficits instead of capital formation.

6. Glossary: keywords that fetch marks

NEP 1991: Package of economic reforms launched in 1991 in response to the crisis	Liberalisation: Removal of unnecessary controls, licences and restrictions
Privatisation: Transfer of ownership or management of PSUs to the private sector	Globalisation: Integration of a nation's economy with the world economy
Disinvestment: Sale of part or all of government equity in PSUs	Devaluation: Deliberate reduction of the value of the domestic currency by the government
Tariff: A tax imposed on imported goods	Quantitative restriction: A quota that limits the physical quantity of goods imported or exported
Outsourcing: Hiring regular services from outside agencies, often in another country	FDI / FII: Foreign Direct Investment / Foreign Institutional Investors
GST: Unified indirect tax on goods and services, effective 1 July 2017	WTO / GATT: World Trade Organisation (1995) / its predecessor, General Agreement on Tariffs and Trade
Dereservation: Opening industries earlier reserved for the public sector or small-scale sector	Jobless growth: Rise in output without a matching rise in employment
MNC: Multinational company operating in more than one country	Structural adjustment: Long-term reforms to remove rigidities and raise efficiency

7. Common confusions (examiners love these)

- **Devaluation vs depreciation:** devaluation is a deliberate government decision; depreciation is a market-driven fall in the value of a currency.
- **Liberalisation vs privatisation:** liberalisation removes controls; privatisation changes ownership or management. Disinvestment belongs to privatisation.
- **Tariff vs quota:** a tariff is a *tax* on imports; a quota (quantitative restriction) is a *limit* on quantity.
- **Stabilisation vs structural:** short-term and demand-side (BoP, inflation) vs long-term and supply-side (efficiency, competitiveness).
- **Outsourcing vs disinvestment:** outsourcing is buying services from outside agencies; disinvestment is selling government equity.
- **Location of the chapter:** LPG is in *Indian Economic Development* (Part B), not in the Macroeconomics part of the syllabus.

8. Answer-writing strategy

- Begin with a one-line **definition** whenever a term appears (liberalisation, disinvestment, outsourcing).
- Use **point-wise answers:** 3 marks = 3 points, 4 marks = 4 points, 6 marks = 6 points or 3 + 3 (e.g. merits and demerits).
- Underline **keywords** such as 'devaluation', 'market-determined', 'dereservation', 'regulator to facilitator', 'quantitative restrictions', 'jobless growth'.
- For 'Do you agree?' or 'Comment' questions, first state your stand, give reasons, then close with a balanced conclusion.
- For assertion-reason, check A and R separately first, then check whether R explains A.