

Liberalisation, Privatisation and Globalisation: An Appraisal

Chapter Worksheet: Board-Pattern and Most Important Questions with Marking Scheme

Class: XII (Economics)

Max. Marks: 127

Time: 3 Hours

Name: _____

Roll No.: _____

Date: _____

General instructions: Attempt all questions. Marks are shown in brackets at the right. Questions tagged [Board favourite] follow themes that CBSE has repeatedly asked in the board pattern (as 1, 3, 4 and 6 mark questions). The question bank is built on the board-paper pattern and recurring themes; it is not a copy of any single year's paper.

SECTION A: Multiple Choice Questions (1 mark each) [15]

Q.1 The New Economic Policy of India was announced in: [1]

- (a) 1985 (b) 1991
(c) 1996 (d) 2001

Ans. (b) 1991. NEP was announced in July 1991. [1]

Q.2 Which of the following is NOT an economic reform under liberalisation? [1]

- (a) Industrial sector reforms (b) Financial sector reforms
(c) Tax reforms (d) Disinvestment of public sector units

Ans. (d) Disinvestment of public sector units. Disinvestment belongs to privatisation. [1]

Q.3 Which of the following is an indirect tax? [1]

- (a) Income tax (b) Corporate tax
(c) Goods and Services Tax (GST) (d) Tax on profits of companies

Ans. (c) Goods and Services Tax (GST). GST is imposed on goods and services; the others are direct taxes. [1]

Q.4 In 1991 India's foreign exchange reserves could finance imports for only about: [1]

- (a) two weeks (b) two months
(c) six months (d) one year

Ans. (a) two weeks. Reserves were inadequate to finance imports for more than two weeks. [1]

Q.5 The number of industries exclusively reserved for the public sector was reduced from 17 to: [1]

- (a) 8 (b) 5
(c) 3 (d) 1

Ans. (c) 3. Defence equipment, atomic energy generation and railway transport. [1]

Q.6 Devaluation of the rupee means: [1]

- (a) a rise in the value of rupee decided by market forces
(b) a reduction in the value of the domestic currency by the government
(c) a fall in the value of rupee due to demand and supply
(d) fixing the rupee at a higher value

Ans. (b) a reduction in the value of the domestic currency by the government. Devaluation is a government-decided reduction in the value of domestic currency. [1]

- Q.7** Selling a part of the equity of public sector undertakings to the public is called: [1]
(a) Outsourcing (b) Disinvestment
(c) Liberalisation (d) Devaluation

Ans. (b) Disinvestment. *Disinvestment is one of the two ways of privatisation.* [1]

- Q.8** Which of the following was NOT a cause of the 1991 economic crisis? [1]
(a) Fall in foreign exchange reserves (b) Poor performance of the public sector
(c) Inflationary pressures (d) Surplus in the balance of payments

Ans. (d) Surplus in the balance of payments. *India faced a deficit, not a surplus, in BOP.* [1]

- Q.9** The WTO was established in 1995 as the successor to: [1]
(a) IMF (b) GATT
(c) UNCTAD (d) IBRD

Ans. (b) GATT. *GATT was set up in 1948; WTO replaced it in 1995.* [1]

- Q.10** Outsourcing refers to: [1]
(a) transfer of ownership of PSUs to the private sector
(b) contracting out activities, earlier performed by the organisation, to a third party
(c) removal of restrictions on the private sector
(d) reduction in the value of domestic currency

Ans. (b) contracting out activities, earlier performed by the organisation, to a third party. *Outsourcing: contracting out activities earlier done in-house.* [1]

- Q.11** Statement I: After liberalisation the role of the RBI changed from regulator to facilitator of the financial sector. [1]
Statement II: After the reforms, banks can set up new branches only with the prior approval of the RBI for every branch.
Choose the correct option:
(a) Both statements are true (b) Both statements are false
(c) Statement I is true and Statement II is false (d) Statement I is false and Statement II is true

Ans. (c) Statement I is true and Statement II is false. *Banks were given freedom to open new branches (after fulfilling conditions) without RBI approval.* [1]

- Q.12** Assertion (A): The rupee was devalued in July 1991. [1]
Reason (R): Devaluation encourages exports and discourages imports, helping to overcome the BOP crisis.
(a) Both A and R are true and R is the correct explanation of A.
(b) Both A and R are true but R is not the correct explanation of A.
(c) A is true but R is false.
(d) A is false but R is true.

Ans. (a) Both A and R are true and R is the correct explanation of A.. *Devaluation (by nearly 20%) stimulated exports, discouraged imports and raised foreign capital inflow.* [1]

Q.13 Assertion (A): Many scholars consider the disinvestment policy of the government ineffective. [1]

Reason (R): Assets of PSEs were undervalued and sold, and the proceeds were used to meet shortfalls in government revenue.

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

Ans. (a) Both A and R are true and R is the correct explanation of A.. *Targets were missed (2014-15: target Rs 56,000 crore, achieved about Rs 34,500 crore) and proceeds were not used for PSE development. [1]*

Q.14 Assertion (A): Globalisation has produced only positive results for all countries. [1]

Reason (R): Benefits of globalisation accrue more to developed countries and it increases economic disparities.

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

Ans. (d) A is false but R is true.. *A is false; globalisation has positive and negative results. R is true. [1]*

Q.15 Which of the following is correctly matched? [1]

- (a) Bilateral trade - trade among more than two countries
- (b) Tariff barriers - quotas on the quantity of imports
- (c) Multi-lateral trade - trade among more than two countries
- (d) Non-tariff barriers - customs duties on imports

Ans. (c) Multi-lateral trade - trade among more than two countries. *Bilateral = two countries; multi-lateral = more than two. Tariff = tax on imports; non-tariff = restrictions on quantity. [1]*

SECTION B: Very Short Answer Questions (1 mark each) [8]

Q.16 Define liberalisation. [1]

Ans. Liberalisation means removal of entry and growth restrictions on the private sector. [1]

Q.17 Name any two industries reserved exclusively for the public sector after 1991. [1]

Ans. Any two: defence equipment; atomic energy generation; railway transport. [1]

Q.18 What is meant by devaluation of the rupee? [1]

Ans. Reduction in the value of the domestic currency (rupee) by the government against foreign currencies. [1]

Q.19 State any one function of the World Trade Organisation (WTO). [1]

Ans. Any one: facilitate international trade by removing tariff and non-tariff barriers; establish a rule-based trading regime; enlarge production and trade of services; ensure optimum utilisation of world resources; protect the environment. [1]

Q.20 What are stabilisation measures under the New Economic Policy? [1]

Ans. Short-term measures aimed at correcting weaknesses of the balance of payments (by maintaining sufficient foreign exchange reserves) and controlling inflation. [1]

Q.21 What is meant by disinvestment? [1]

Ans. Selling off part of the equity of public sector undertakings to the public. [1]

Q.22 Name any two services outsourced to India. [1]

Ans. Any two: voice-based business processes (call centres), record keeping, accountancy, banking services, music recording, film editing, book transcription, clinical advice. [1]

Q.23 When did the Goods and Services Tax (GST) come into effect in India? [1]

Ans. 1 July 2017 (the GST Act was passed in Parliament on 29 March 2017). [1]

SECTION C: Short Answer Questions (3 marks each) [10]

Q.24 Explain any three causes of the economic crisis of 1991 (reasons for introducing economic reforms). **[Board favourite]** [3]

Ans.

Any three points, 1 mark each (point + explanation):

1. Poor performance of public sector: huge losses of a good number of PSEs despite large investment. [1]
2. Deficit in balance of payments: imports rose sharply while exports grew slowly due to low quality and high prices of Indian goods. [1]
3. Inflationary pressures: consistent rise in price level due to increase in money supply and shortage of essential goods. [1]
4. Fall in foreign exchange reserves: in 1991 reserves were enough to finance imports for only about two weeks and to pay interest to lenders. [1]
5. Huge burden of debts: expenditure far exceeded revenue, forcing borrowing from banks, public and international institutions. [1]
6. Inefficient management: inability to generate sufficient revenue; expenditure exceeded revenue by large margins. [1]

Q.25 Distinguish between stabilisation measures and structural reform measures. [3]

Ans.

Stabilisation measures: short-term measures; aim at correcting weaknesses of the BOP by maintaining sufficient foreign exchange reserves and at controlling inflation. [1.5]

Structural reform measures: long-term measures; aim at improving the efficiency of the economy and increasing international competitiveness by removing rigidities in various segments of the Indian economy. [1.5]

Q.26 Name the three principal features (policies) of the New Economic Policy and explain each briefly. **[Board favourite]** [3]

Ans.

1. Liberalisation: removal of entry and growth restrictions on the private sector. [1]
2. Privatisation: transfer of ownership, management and control of public sector enterprises to the private sector. [1]
3. Globalisation: integrating the national economy with the world economy through removal of barriers on international trade and capital movements. [1]

Q.27 What was the purpose of liberalisation? State any three reforms taken under it. **[3]**

Ans.

Purpose: (i) to unlock the economic potential of the country by encouraging the private sector and multinational corporations to invest and expand; (ii) to introduce much more competition and create incentives for efficiency. [1 + 1]

Reforms (any three): industrial sector, financial sector, tax, foreign exchange, trade and investment policy reforms. [1]

Q.28 What are the important reforms introduced in the foreign exchange market? **[Board favourite]** **[3]**

Ans.

1. Devaluation of rupee: to overcome the BOP crisis the rupee was devalued against foreign currencies (July 1991, by nearly 20%); this increased the inflow of foreign exchange. [1.5]

2. Market determination of exchange rate: the government allowed the rupee value to be free from its control; demand and supply of foreign currency now determine the exchange value. [1.5]

Q.29 Discuss the tax reforms introduced under the New Economic Policy of 1991. **[Board favourite]** **[3]**

Ans.

1. Reduction in taxes: continuous reduction in income and corporate tax since 1991, as high rates encouraged evasion; moderate rates encourage savings and voluntary disclosure. [1]

2. Reforms in indirect taxes: to facilitate a common national market for goods and commodities; GST (effective 1 July 2017): 'one nation, one tax, one market'. [1]

3. Simplification of process: many procedures simplified to encourage better compliance by taxpayers. [1]

Q.30 'The process of globalisation has produced positive as well as negative results.' Comment. **[Board favourite]** **[3]**

Ans.

The statement is correct. [0.5]

Positive results (any two): greater access to global markets; advanced technology; better future prospects for large industries of developing countries. [1]

Negative results (any two): benefits accrue more to developed countries; compromises the welfare and identity of people in poor countries; market-driven globalisation increases economic disparities among nations and people. [1.5]

Q.31 Discuss the concept of outsourcing. Name some services outsourced to India by developed countries. **[3]**

Ans.

Meaning: contracting out some activities, earlier performed by the organisation, to a third party (e.g. security service given to an outside agency). [1]

India is a favourite destination because of low wage rates and availability of skilled manpower; IT and telecom links digitise and transmit text, voice and visual data in real time. [1]

Services (any three): call centres/BPO, record keeping, accountancy, banking services, music recording, film editing, book transcription, clinical advice. [1]

Q.32 Mention the major functions of the World Trade Organisation (WTO). **[Board favourite]** **[3]**

Ans.

Any three, 1 mark each:

1. To facilitate international trade (bilateral and multi-lateral) through removal of tariff as well as non-tariff barriers.
2. To establish a rule-based trading regime in which nations cannot place arbitrary restrictions on trade.
3. To enlarge production and trade of services.
4. To ensure optimum utilisation of world resources.
5. To protect the environment.

Q.33 Do you think the Navaratna policy of the government has helped improve the performance of public sector undertakings? How? **[3]**

Ans.

Yes. [0.5]

To infuse professionalism and enable PSUs to compete in the liberalised global environment, the government chose nine PSUs (BHEL, BPCL, SAIL etc.) as Navaratnas and gave them greater managerial and operational autonomy. [1]

This led to better performance of these companies. [0.5]

Encouraged, the government retained them in the public sector and let them expand in global markets and raise resources from financial markets. [1]

SECTION D: Short Answer Questions (4 marks each) [6]

Q.34 Explain the reforms introduced in the financial sector under liberalisation. **[Board favourite]** **[4]**

Ans.

1. Change in role of RBI: from regulator to facilitator of the financial sector; financial institutions can take many decisions without consulting the RBI. [1]
2. Origin of private banks: Indian (e.g. ICICI) and foreign (e.g. HSBC) banks increased competition, lowering interest rates and improving services. [1]
3. Increase in limit of foreign investment: limit in banks raised to around 51%; FIIs (merchant bankers, mutual funds, pension funds) allowed to invest in Indian financial markets. [1]
4. Ease in expansion process: banks may set up new branches (after fulfilling conditions) without RBI approval. [1]

Q.35 Discuss the trade and investment policy reforms introduced under the New Economic Policy. **[Board favourite]** **[4]**

Ans.

Purpose: to increase international competitiveness of industrial production; promote foreign investment and technology; promote efficiency of local industries and adoption of modern technology. [1]

Reforms (any three, 1 each): removal of quantitative restrictions on imports and exports (e.g. on consumer goods and agricultural products, fully removed from April 2001); removal of export duties; reduction in import duties; relaxation in import licensing (except hazardous and environmentally sensitive industries). [3]

Q.36 Explain any four arguments in favour of privatisation. [4]

Ans.

Any four, 1 mark each: (1) reduction in budgetary deficit; (2) competitive environment, abolishing public sector monopoly; (3) better managerial efficiency, free from political pressure; (4) quick decision making; (5) promotes consumer's sovereignty; (6) profit-oriented decisions; (7) increase in investment and employment opportunities.

Q.37 Explain any four arguments against privatisation. [4]

Ans.

1. Social welfare neglected: private enterprises operate mainly for profit maximisation. [1]
2. Lop-sided economic development: private sector avoids risky, long-gestation projects, affecting basic and heavy industries and infrastructure. [1]
3. Concentration of economic power: public monopoly may be replaced by private monopoly leading to exploitation. [1]
4. Rise in unemployment: fear of retrenchment; voluntary retirement of workers in many PSEs. [1]

Q.38 'Economic reforms were widely criticised because they neglected the agricultural sector.' [4]
Do you agree? Give reasons.

Ans.

Yes, I agree. [0.5] Reasons (as per the textbook):

1. Reduction of public investment in infrastructure, market linkages and research and extension, which played a crucial role in the Green Revolution. [1]
2. Removal of fertiliser subsidy raised the cost of production, hurting small and marginal farmers. [1]
3. Reduction in import duties, removal of minimum support price and lifting of quantitative restrictions after WTO exposed farmers to international competition. [1]
4. Shift to cash crops for the export market raised the prices of food grains. [0.5]

Q.39 Should India be a member of the WTO? Discuss. [4]

Ans.

Arguments against membership (as given by some scholars): major volume of international trade occurs among developed nations; developing countries are forced to open their markets but are denied access to markets of developed countries. [2]

Arguments for membership: India has been at the forefront of framing fair global rules and advocating the interests of the developing world; it has kept its commitments by removing quantitative restrictions and reducing tariff rates. [2]

SECTION E: Long Answer Questions (6 marks each) [7]

Q.40 Discuss the various reasons for making economic reforms in India (1991). [Board favourite] [6]

Ans.

Any six points, 1 mark each (see Q.S1 for explanation): poor performance of public sector; deficit in balance of payments; inflationary pressures; fall in foreign exchange reserves; huge burden of debts; inefficient management. [6]

Value point: India approached the IBRD (World Bank) and IMF and received a loan of \$7 billion; they expected India to remove restrictions on the private sector, reduce the role of government in many areas and remove trade restrictions.

Q.41 Discuss the industrial sector reforms introduced under the New Economic Policy. **[Board favourite]** **[6]**

Ans.

1. Reduction in industrial licensing: licensing abolished for all projects except a short list (liquor, defence equipment, industrial explosives etc.); licences were needed only for security and strategic reasons. [1.5]
2. Decrease in role of public sector: number of industries exclusively reserved reduced from 17 to 3 (defence equipment, atomic energy generation, railway transport). [1.5]
3. De-reservation under small-scale industries: many goods de-reserved; investment ceiling on plant and machinery raised to Rs 1 crore; market allowed to determine prices in many industries. [1.5]
4. MRTP Act: large companies no longer needed prior approval for expansion, establishment of new undertakings, mergers and amalgamations. [1.5]

Q.42 Explain the arguments in favour of the new economic policy (economic reforms). **[Board favourite]** **[6]**

Ans.

Any six, 1 mark each:

1. Increase in rate of economic growth: GDP growth 5.6% in 1980-91; estimated 7.2% in 2018-19 against 6.7% in 2017-18; growth mainly driven by services.
2. Inflow of foreign investment: rose from about US \$100 million (1990-91) to US \$73.5 billion (2014-15); 'Make in India' (Sept 2014) raised FDI inflow by 48%.
3. Rise in foreign exchange reserves: from about US \$6 billion (1990-91) to about US \$321 billion (2014-15).
4. Rise in exports: auto parts, engineering goods, IT software and textiles.
5. Control on inflation: fell from the peak of 17% in 1991 to around 5.48% in 2015-16.
6. Increase in role of the private sector: abolition of licensing and removal of restrictions enlarged its area of operation.

Q.43 Explain in brief the various points of criticism of economic reforms. **[Board favourite]** **[6]**

Ans.

Any six, 1 mark each:

1. Growing unemployment: growth failed to generate sufficient employment.
2. Neglect of agriculture: reduced public investment, removal of fertiliser subsidy, import liberalisation, shift to cash crops.
3. Low level of industrial growth: cheaper imported goods, lack of infrastructure, non-tariff barriers by developed countries.
4. Ineffective disinvestment policy: 2014-15 target Rs 56,000 crore, achievement about Rs 34,500 crore; assets undervalued; proceeds used to meet revenue shortfalls.
5. Ineffective tax policy: tariff reduction and tax incentives to foreign investors reduced revenue.
6. Spread of consumerism: production of luxuries and items of superior consumption.
7. Unbalanced growth: concentrated in select services (telecom, IT, finance, entertainment, travel and hospitality, real estate, trade) rather than agriculture and industry.

Q.44 What do you understand by 'globalisation'? Mention any four changes made by the globalisation of the Indian economy. **[Board favourite]** **[6]**

Ans.

Meaning: integrating the national economy with the world economy through removal of barriers on international trade and capital movements; it aims to create a borderless world. [2]

Any four changes, 1 mark each:

1. Automatic permission for FDI up to 51% in high-technology and high-investment priority industries.
2. Foreign technology agreements: automatic permission up to Rs 1 crore; no permission needed to hire foreign technicians or test indigenously developed technology abroad.
3. Rupee devalued by nearly 20% in July 1991; made partially convertible in Budget 1992-93 and then fully convertible in 1993-94 (as per textbook).
4. Export-import policy 1992-97 removed restrictions and controls on external trade and let market forces play a greater role.
5. Peak rate of customs duty reduced from 250% to 10% in the 2007-08 Budget.

Q.45 Discuss economic reforms in India in the light of social justice and welfare. **[6]**

Ans.

Any six, 1 mark each: the reforms have been criticised in the light of social justice and welfare because of:

1. Growing unemployment despite higher GDP growth.
2. Removal of fertiliser subsidy, which hurt small and marginal farmers.
3. Rise in prices of food grains due to the shift to cash crops for export.
4. Cheaper imported goods exposing domestic industries and manufacturers to competition.
5. Spread of consumerism through luxuries and superior consumption items.
6. Unbalanced growth concentrated in select services rather than vital sectors giving livelihood to millions.

Q.46 Explain the trade and investment policy reforms and the foreign exchange reforms introduced under liberalisation. **[6]**

Ans.

Trade and investment policy reforms (any three with explanation): removal of quantitative restrictions on imports and exports; removal of export duties; reduction in import duties; relaxation of import licensing system; purpose is to increase competitiveness, promote foreign investment and technology and efficiency of local industries. [3]

Foreign exchange reforms: (i) devaluation of rupee to overcome the BOP crisis and increase foreign exchange inflow; (ii) market determination of exchange rate through demand and supply of foreign currency. [3]

SECTION F: Case / Source Based Questions (4 marks each) [2]

Q.47 Read the passage and answer the questions: [4]

"By 1991 India faced a severe economic crisis. Foreign exchange reserves had fallen to a level that could finance imports for only about two weeks, prices were rising, and government expenditure was much higher than revenue. India approached the IBRD and the IMF and received a loan of \$7 billion. In return, these agencies expected India to liberalise and open up the economy."

- (i) Name the two international agencies mentioned in the passage. [1]
- (ii) State any two conditions these agencies expected India to fulfil. [2]
- (iii) Name the policy India announced in response and the month and year of its announcement. [1]

Ans.

- (i) International Bank for Reconstruction and Development (World Bank) and International Monetary Fund (IMF). [1]
- (ii) Any two: removing restrictions on the private sector; reducing the role of government in many areas; removing trade restrictions. [1 + 1]
- (iii) New Economic Policy (NEP); July 1991. [1]

Q.48 Read the data and answer the questions: [4]

"Since 1991 foreign investment (FDI and FII) rose from about US \$100 million in 1990-91 to US \$73.5 billion in 2014-15. Foreign exchange reserves rose from about US \$6 billion to about US \$321 billion in the same period, and inflation fell from a peak of 17% in 1991 to around 5.48% in 2015-16. However, critics point out that GDP growth failed to generate sufficient employment, and growth was concentrated in a few select services."

- (i) What was the approximate level of foreign exchange reserves in 2014-15? [1]
- (ii) Name one more benefit of the reforms not mentioned in the passage. [1]
- (iii) Why did high growth fail to generate sufficient employment? Give two reasons. [2]

Ans.

- (i) About US \$321 billion. [1]
- (ii) Any one: rise in exports (auto parts, engineering goods, IT software, textiles); increase in the role of the private sector; increase in the GDP growth rate. [1]
- (iii) (a) Growth was concentrated in select areas of the services sector (telecom, IT, finance etc.). [1] (b) Vital sectors like agriculture and industry, which provide livelihood to millions, were neglected or grew slowly. [1]

All the best from Team MasterG.Net!