

SECTION 3: ANSWER KEY

Objective answers, then marking-scheme style key points. Award 1 mark per key point where the question is worth as many marks.

Part A: MCQs

1. (b) 2. (b) 3. (a) 4. (d) 5. (a) 6. (d) 7. (c) 8. (b) 9. (d) 10. (b) 11. (a) 12. (d) 13. (d) 14. (a) 15. (d) 16. (c) 17. (b) 18. (b) 19. (a) 20. (d) 21. (c) 22. (d) 23. (a) 24. (b) 25. (d) 26. (b) 27. (b) 28. (b) 29. (b) 30. (c)

Part B: Assertion-Reason

1. (a) 2. (a) 3. (a) 4. (c) 5. (a) 6. (a) 7. (a) 8. (c) 9. (a) 10. (b)

Part C: Very Short Answers

1. World Trade Organisation.
2. General Agreement on Tariffs and Trade.
3. Removal or relaxation of government controls, licences and restrictions on economic activity so that private enterprise and market forces can operate freely.
4. Transfer of ownership or management of a public sector enterprise to the private sector.
5. Goods and Services Tax (GST) / reduction in direct tax rates.
6. Alcohol (also cigarettes, hazardous chemicals, industrial explosives, drugs and pharmaceuticals).
7. Low wage rates / availability of skilled manpower.
8. Dr Manmohan Singh.
9. A tax imposed on imported goods.
10. Maharatna, Navratna, Miniratna (any two).

Part D: Case-Based Questions

Case 1: 1. (d) 2. (a) 3. (c) 4. (d)

Case 2: 1. (b) 2. (a) 3. (a) 4. (c)

Case 3: 1. (a) 2. (b) 3. (b) 4. (a)

Part E: Short Answers (3 marks)

Q1. [3 marks]

- Balance-of-payments problem: imports exceeded exports; foreign exchange reserves dropped to a level enough for only about two weeks of imports.
- Rising fiscal deficit and inflation: government spending far exceeded revenue; prices of essential goods rose.
- Poor performance of PSUs and the Gulf crisis (oil price rise) added to the strain; the government had to borrow from the IMF and World Bank.

Q2. [3 marks]

- Time: stabilisation is short-term; structural reform is long-term.
- Aim: stabilisation corrects BoP weaknesses and controls inflation; structural reform improves efficiency and international competitiveness by removing rigidities.
- Examples: devaluation, curbing inflation vs. abolition of licensing, dereservation, financial and tax reforms.

Q3. [3 marks]

- Devaluation of the rupee (1991): raised the inflow of foreign exchange; exports became cheaper and imports costlier.
- Shift to a market-determined exchange rate: the value of the rupee is decided by the demand for and supply of foreign exchange, not by the government.
- Later steps such as current account convertibility (1994) further liberalised foreign exchange transactions.

Q4. [3 marks]

- Direct taxes: rates of personal income tax and corporation tax were reduced to improve compliance and check evasion.
- Indirect taxes: simplified and unified through GST (1 July 2017), replacing many central and state levies and creating a common national market.
- Tax procedures were simplified and tariffs reduced.

Q5. [3 marks]

- Meaning (1 mark): sale of a part or the whole of the equity of PSUs to the private sector or the general public.
- Objective 1: improve financial discipline and facilitate modernisation.
- Objective 2: raise resources for the government / encourage professional management and greater efficiency.

Q6. [3 marks]

- Meaning (1 mark): hiring regular services from external sources, mostly from other countries, that were earlier provided within the company (e.g. call centres, accounting, legal advice, medical transcription).
- Reason 1: low wage rates in India.
- Reason 2: availability of a large pool of skilled, English-speaking manpower.

Q7. [3 marks]

- Established in 1995 as the successor to GATT; it sets up a rule-based multilateral trading system.
- Ensures that countries do not arbitrarily impose trade restrictions; provides a forum for negotiations and dispute settlement.
- Aims at expanding production and trade and at optimum use of world resources; India is a founder member.

Q8. [3 marks]

- Public investment in agriculture (irrigation, power, roads, research, marketing) declined.
- Fertiliser subsidy was reduced, raising input costs, especially for small and marginal farmers.
- Lower import duties and removal of quantitative restrictions exposed farmers to foreign competition; shift towards export-oriented cash crops put pressure on food-grain prices.

Q9. [3 marks]

- Cheap imports replaced domestic goods as tariffs were reduced.
- Inadequate infrastructure, especially power supply, raised costs and limited competitiveness.
- Developed countries' non-tariff barriers (quality, environmental and labour standards) limited India's exports; domestic firms lacked capacity to compete.

Q10. [3 marks]

- Stand: largely agree. GDP growth was faster than employment growth.
- Agriculture, the largest employer, stagnated; industrial growth slowed; services growth was skill-intensive and concentrated in IT and finance.
- Employment shifted towards informal and low-productivity work; hence growth did not translate into enough decent jobs.

Part F: Short Answers (4 marks)**Q1. [4 marks]**

- Industrial licensing abolished for almost all industries except alcohol, cigarettes, hazardous chemicals, industrial explosives, electronics, aerospace and drugs and pharmaceuticals.
- Number of industries reserved for the public sector reduced sharply (17 to 8 in the first round), allowing private entry.
- Many goods produced by the small-scale sector were dereserved.
- Firms became free to expand capacity or choose products without prior approval; markets were allowed to determine prices in many industries.

Q2. [4 marks]

- Role of the RBI changed from regulator to facilitator of the financial sector.
- Banks were given freedom to take many decisions (such as lending) without RBI approval and to open branches and rationalise branch networks.
- Private banks, including foreign banks, were permitted; the limit on foreign investment in banks was raised.
- FIs such as merchant bankers, mutual funds and pension funds were allowed to invest in Indian financial markets.

Q3. [4 marks]

- Quantitative restrictions on imports and exports were dismantled; for consumer goods and agricultural imports they were removed from April 2001.
- Tariff rates were reduced.
- Licensing of imports was removed except for a few hazardous and environmentally sensitive goods.
- Export duties were removed to enhance the competitive advantage of Indian goods; entry of foreign investment was eased.

Q4. [4 marks]

- Stand: Yes, I agree.
- Profit-making PSUs were classified as Maharatna, Navratna and Miniratna and given greater managerial and operational autonomy.
- Purpose: to help them compete effectively and expand in global markets.
- It improves efficiency and professional management while government continues to hold important strategic enterprises; loss-making units were targeted for disinvestment.

Q5. [4 marks]

- Reason: severe balance-of-payments crisis, near-exhausted forex reserves, high fiscal deficit and inflation.
- Loan of about US\$ 7 billion was obtained.
- Conditions: liberalise and open up the economy, reduce the role of the government in many areas, remove trade restrictions.
- Result: the New Economic Policy of 1991 with stabilisation and structural reform measures (L-P-G).

Q6. [4 marks]

- Service sector became the largest contributor to GDP and grew faster than agriculture and industry.
- Reasons: higher demand for manufacturing raised demand for supporting services; liberalisation of the financial sector boosted financial services.
- Reforms in infrastructure segments such as telecommunications helped services.
- IT/ITES, outsourcing and export of software services expanded. Caution: growth was skill-intensive and did not create jobs on a large scale.

Q7. [4 marks]

- Adoption of new and flexible methods of production.
- Higher productivity of industry through modern technology and more efficient workforce.
- Growth of exports and inflow of capital and foreign investment.
- Restructuring of production towards goods that the country produces efficiently; wider choice and better quality for consumers.

Q8. [4 marks]

- (i) Services (5.5 to 7.8, a rise of 2.3 points).
- (ii) Agriculture (3.6 to 2.5, a fall of 1.1 points).
- (iii) Decline in public investment / reduction in fertiliser subsidy / exposure to import competition (any one).
- (iv) Liberalisation of the financial sector / growth of IT and outsourcing / infrastructure reforms in telecom (any one).

Part G: Long Answers (6 marks). One mark per well-explained point; introduction/conclusion can substitute for a point

Q1. [6 marks]

- Achievements: faster GDP growth (about 5.6% in 1980–91 to a peak of about 8.2% in 2007–12 as per NCERT).
- Achievements: strong build-up of forex reserves; rise in FDI and FII inflows; growth of exports, especially services.
- Achievements: services became the largest sector; consumers gained choice, quality and competition; industry modernised.
- Shortcomings: agriculture decelerated (public investment cuts, subsidy cuts, import competition).
- Shortcomings: industrial growth slowed; jobless growth; benefits uneven, inequality persisted; disinvestment criticised.
- Conclusion: reforms raised growth and integration with the world economy but failed to spread benefits widely; complementary policies for agriculture, jobs and infrastructure are required.

Q2. [6 marks]

- Stand: largely agree.
- Growth rate of agriculture decelerated in the reform period.
- Public investment in irrigation, power, roads, market linkages, research and extension declined.
- Fertiliser subsidy was reduced, raising cost of cultivation, hurting small and marginal farmers.
- Reduction of import duties and removal of quantitative restrictions exposed farmers to global competition; export-oriented shift towards cash crops put pressure on food-grain prices.
- Since agriculture supports the largest share of the workforce, the slowdown affected rural incomes and employment.

Q3. [6 marks]

- Introduction: NEP 1991 responded to the crisis; consisted of stabilisation and structural reforms.
- Liberalisation: removal of controls; abolition of licensing, dereservation, financial, tax, forex, trade and investment reforms.
- Examples of liberalisation: RBI as facilitator, GST, market-determined exchange rate, removal of quantitative restrictions.
- Privatisation: transfer of ownership or management to the private sector; disinvestment; Maharatna, Navratna, Miniratna PSUs.
- Globalisation: integration with the world economy; outsourcing; MNCs; foreign investment; WTO membership.
- Conclusion: together they reduced the role of the state, increased competition and opened the economy.

Q4. [6 marks]

- Industry: licensing abolished, dereservation, easier FDI, modernisation and better quality of goods.
- Industry slowed: cheap imports, poor infrastructure, developed countries' non-tariff barriers, weak competitiveness of domestic firms.
- Services: fastest-growing, largest share of GDP; IT/ITES, finance, telecom, outsourcing.
- Reasons: higher demand from manufacturing, financial sector liberalisation, infrastructure reforms.
- Employment: jobless growth; GDP grew faster than jobs; agriculture stagnant; services skill-intensive.
- Conclusion: reform-led growth was uneven across sectors and did not create adequate employment.

Q5. [6 marks]

- Agriculture: neglect, decline in public investment, subsidy cuts, import competition.
- Industry: slower growth, inadequate infrastructure, competition from cheap imports, trade barriers by developed countries.
- Employment: jobless growth and informalisation.
- Fiscal and social sector: tax concessions and tariff cuts reduced revenue; critics argue that public investment in infrastructure and social sectors suffered.
- Disinvestment: alleged undervaluation of PSU assets; proceeds used to plug the deficit.
- Inequality: benefits reached urban and organised sectors more than rural and poorer households.

Q6. [6 marks]

- Globalisation: integration of the economy with the world through free flow of goods, capital, services and technology.
- Outsourcing: BPOs, call centres and IT services in India because of low wages and skilled manpower; boosts services and forex earnings.
- MNCs and foreign investment bring capital, technology and management skills; competition improves quality for consumers.
- WTO: rule-based multilateral trade regime, dispute settlement; India as a founder member.
- Benefits: new production methods, productivity, exports, efficiency.
- Concerns: uneven gains, non-tariff barriers of developed countries, pressure on small producers and farmers.

Part H: Rapid-Fire Drills**H1 Match:** (i)–(b), (ii)–(d), (iii)–(a), (iv)–(e), (v)–(c), (vi)–(f)**H2 Fill in the blanks:** 1. Dr Manmohan Singh 2. devaluation 3. disinvestment 4. GATT 5. services 6. trade and investment 7. jobless 8. Maharatna**H3 True/False:**

1. False. Liberalisation removed licences and controls.
2. False. It makes imports costlier and exports cheaper.
3. False. It can be a sale of only part of the equity.
4. True. IT, finance, telecom and outsourcing drove its growth.
5. False. Agricultural growth decelerated.
6. True. It succeeded GATT in 1995.

SECTION 4: SCORE TRACKER AND REVISION PLAN

Part	Max marks	Marks obtained	Chapter areas to revisit
A. MCQs	30		
B. Assertion-Reason	10		
C. Very Short Answers	10		
D. Case-Based	12		
E. Short Answers (3 marks)	30		
F. Short Answers (4 marks)	32		
G. Long Answers (6 marks)	36		
H. Rapid-Fire Drills	20		
TOTAL	180		

Interpreting your score

- **150 and above:** excellent. Re-attempt only the questions you missed and the ★ questions.
- **110–149:** good. Revise the notes for the weak parts and rewrite the descriptive answers point-wise.
- **Below 110:** read the Revision Notes again, focus on definitions, the five liberalisation areas, and the agriculture/industry/jobs reasoning, then re-attempt Parts A–C.