

SECTION 2: PRACTICE PAPER

Maximum Marks: 180 | Time: 3 hours 30 minutes | ★ = recurring board theme

PART A: Multiple Choice Questions (30 × 1 = 30 marks)

Choose the correct option.

1. Economic reforms under the New Economic Policy were initiated in India in the year:
(a) 1996 (b) 1991
(c) 1985 (d) 2001
2. ★ Which of the following was an **immediate** cause of the 1991 economic crisis?
(a) A steep fall in oil prices (b) Exhaustion of foreign exchange reserves
(c) Excess foreign exchange reserves (d) A large surplus in the balance of trade
3. ★ To overcome the 1991 crisis, India approached:
(a) the IMF and the World Bank (b) the WTO and UNCTAD
(c) the ADB and the UNDP (d) the United Nations Security Council
4. As per NCERT, foreign exchange reserves in 1990-91 could finance imports for only about:
(a) three years (b) six months
(c) one year (d) two weeks
5. Which of the following is **not** a component of the New Economic Policy?
(a) Nationalisation (b) Liberalisation
(c) Globalisation (d) Privatisation
6. ★ Stabilisation measures are:
(a) measures to increase the public sector's share in industry (b) long-term measures to improve efficiency and competitiveness
(c) measures to impose quotas on all imports (d) short-term measures to correct balance-of-payments weaknesses and control inflation
7. Structural reform measures aim at:
(a) increasing government control over prices (b) raising import duties on all goods
(c) improving the efficiency of the economy by removing rigidities (d) correcting the balance of payments in the short run only
8. ★ After the 1991 reforms, industrial licensing was **retained** for:
(a) automobiles (b) alcohol
(c) cotton textiles (d) cement
9. ★ In financial sector reforms, the role of the RBI changed from:
(a) facilitator to regulator (b) lender to borrower
(c) supervisor to trader (d) regulator to facilitator
10. Which of the following is **not** a Foreign Institutional Investor (FII)?
(a) A mutual fund (b) A public sector bank
(c) A pension fund (d) A merchant banker
11. ★ The **first** important step in foreign exchange reforms was:
(a) devaluation of the rupee (b) banning foreign currency
(c) fixing the rupee at a higher rate (d) revaluation of the rupee
12. ★ Devaluation of the domestic currency generally:
(a) has no effect on trade (b) makes exports costlier and imports cheaper
(c) makes both exports and imports cheaper (d) makes exports cheaper and imports costlier
13. ★ The Goods and Services Tax (GST) came into effect on:
(a) 1 January 2020 (b) 1 April 2010
(c) 1 April 2014 (d) 1 July 2017

14. Which of the following was subsumed in the GST?
- (a) Service tax (b) Basic customs duty
(c) Corporation tax (d) Income tax
15. ★ Quantitative restrictions on imports of manufactured consumer goods and agricultural products were removed completely from:
- (a) April 1995 (b) April 2010
(c) April 1991 (d) April 2001
16. ★ Disinvestment means:
- (a) taking over private companies by the government (b) increasing government equity in PSUs
(c) selling a part of the equity of public sector undertakings to the private sector or the public (d) closing down loss-making PSUs
17. ★ Which category of PSUs enjoys the **highest** managerial and operational autonomy?
- (a) Navratna (b) Maharatna
(c) Miniratna Category I (d) Miniratna Category II
18. ★ Which of the following is an example of outsourcing?
- (a) An Indian firm exporting tea (b) A foreign bank running its customer-care service through an Indian call centre
(c) The RBI changing the repo rate (d) The government selling shares of a PSU
19. Which of the following is **not** a reason for India being a favoured outsourcing destination?
- (a) High wage rates (b) Low wage rates
(c) Availability of skilled manpower (d) English-speaking workforce
20. The World Trade Organisation was established in:
- (a) 2001 (b) 1947
(c) 1991 (d) 1995
21. The headquarters of the WTO is at:
- (a) Mumbai (b) Washington D.C.
(c) Geneva (d) New York
22. ★ After the reforms, which sector became the largest contributor to India's GDP?
- (a) Mining sector (b) Industrial sector
(c) Agriculture sector (d) Services sector
23. ★ Which of the following is a reason for the slow growth of agriculture in the reform period?
- (a) Decline in public investment in agriculture (b) Increase in fertiliser subsidy
(c) Rise in public investment in irrigation (d) Reduction in the cost of inputs
24. ★ Which of the following contributed to the slowdown of industrial growth?
- (a) Excess supply of power (b) Cheap imports replacing domestic goods
(c) Higher protection from foreign competition (d) Excess public investment
25. ★ 'Jobless growth' refers to:
- (a) growth in employment without growth in output (b) growth of the agricultural sector only
(c) fall in both output and employment (d) growth in output without a matching growth in employment
26. The Finance Minister at the time of launch of the NEP in 1991 was:
- (a) Pranab Mukherjee (b) Dr Manmohan Singh
(c) P. Chidambaram (d) Yashwant Sinha
27. The loan taken from the IMF and the World Bank in 1991 was approximately:
- (a) US\$ 70 billion (b) US\$ 7 billion
(c) US\$ 700 billion (d) US\$ 1 billion

28. ★ Which of the following was **not** a part of trade and investment policy reforms?
- | | |
|--|---|
| (a) Reduction of tariff rates | (b) Imposition of higher import duties to protect domestic industry |
| (c) Removal of import licensing except for hazardous goods | (d) Dismantling of quantitative restrictions |
29. Globalisation refers to:
- | | |
|--|--|
| (a) isolation of the domestic economy from the world | (b) integration of the domestic economy with the world economy |
| (c) self-sufficiency in all goods | (d) government control over foreign trade |
30. ★ Which of the following was **not** an industrial sector reform after 1991?
- | | |
|---|---|
| (a) Abolition of industrial licensing | (b) Allowing markets to determine prices in many industries |
| (c) Increase in the number of industries reserved for the public sector | (d) Dereservation of items for the small-scale sector |

PART B: Assertion-Reason Questions (10 × 1 = 10 marks)

Options for Assertion-Reason: (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.

- ★ **Assertion (A):** India approached the IMF and the World Bank in 1991.
Reason (R): Foreign exchange reserves had fallen to a level that could not finance imports for more than about two weeks.
- ★ **Assertion (A):** Structural reforms are long-term in nature.
Reason (R): They aim to improve efficiency and international competitiveness by removing rigidities in various sectors of the economy.
- ★ **Assertion (A):** The rupee was devalued in 1991 to increase the inflow of foreign exchange.
Reason (R): Devaluation makes exports cheaper and imports costlier.
- ★ **Assertion (A):** Privatisation is the transfer of ownership or management of a public sector enterprise to the private sector.
Reason (R): Disinvestment is the only way in which privatisation can take place.
- Assertion (A):** Outsourcing has created employment opportunities in India's services sector.
Reason (R): India offers low wage rates and a large pool of skilled manpower.
- ★ **Assertion (A):** Economic reforms have been criticised for adversely affecting agriculture.
Reason (R): Public investment in agriculture declined and import duties on agricultural goods were reduced during the reform period.
- ★ **Assertion (A):** Industrial growth slowed down in the reform period.
Reason (R): Cheap imports replaced domestic goods and infrastructure such as power was inadequate.
- Assertion (A):** The services sector has become the largest contributor to India's GDP.
Reason (R): The growth rate of manufacturing has been faster than that of services since 1991.
- Assertion (A):** GST is often described as 'One Nation, One Tax'.
Reason (R): It replaced many separate indirect taxes levied by the Centre and the states.
- Assertion (A):** The value of the rupee was reduced in 1991.
Reason (R): India approached the IMF and the World Bank in 1991.

PART C: Very Short Answer Questions (10 × 1 = 10 marks)

- Expand WTO. [1]
- Expand GATT. [1]
- ★ What is meant by liberalisation? [1]
- ★ Define privatisation. [1]
- Name any one tax reform introduced in India after 1991. [1]
- Name any one industry for which licensing was retained after 1991. [1]

7. ★ State any one reason why India is a favoured destination for outsourcing. [1]
8. Who was the Finance Minister when the NEP was announced in 1991? [1]
9. What is a tariff? [1]
10. ★ Name any two categories of PSUs granted greater autonomy after the reforms. [1]

PART D: Case-Based Questions (3 cases × 4 marks = 12 marks)

Read each passage carefully and answer the MCQs that follow.

Case 1: The 1991 crisis

In 1991, India faced an economic crisis of an unprecedented kind. Imports were growing faster than exports, and foreign exchange reserves fell to a level that could finance imports for barely two weeks. Inflation was rising, the fiscal deficit was high, and the Gulf crisis had pushed up oil prices. To tide over the crisis, India approached the IMF and the World Bank and obtained a loan of about US\$ 7 billion. In return, the government agreed to open up the economy and reduce its role in many areas.

1. The immediate cause of the crisis described above was:

(a) excess foreign exchange reserves	(b) a fall in the rate of inflation
(c) a surplus in the balance of trade	(d) a shortage of foreign exchange reserves due to a balance-of-payments deficit
2. The loan was obtained from:

(a) the IMF and the World Bank	(b) the ADB alone
(c) the United Nations	(d) the WTO and the UNDP
3. Short-term measures to correct the balance of payments and control inflation are called:

(a) disinvestment	(b) structural reforms
(c) stabilisation measures	(d) outsourcing
4. Which of the following was a condition attached to the loan?

(a) Raising import tariffs on all goods	(b) Nationalising more industries
(c) Stopping all foreign trade	(d) Opening up the economy and reducing the role of government

Case 2: Privatisation and PSU autonomy

After the reforms, the government decided to retain profit-making public sector undertakings (PSUs) and gave them greater managerial and operational autonomy so that they could compete effectively in the global market. Such PSUs were classified as Maharatna, Navratna and Miniratna. At the same time, the government began selling part of its equity in some PSUs to private investors and the public in order to improve financial discipline, facilitate modernisation and raise resources.

1. The sale of part of the government's equity in PSUs is termed:

(a) devaluation	(b) disinvestment
(c) outsourcing	(d) nationalisation
2. Which category enjoys the highest autonomy?

(a) Maharatna	(b) Miniratna Category I
(c) None of the categories	(d) Miniratna Category II
3. Which of the following is **not** an objective of disinvestment?

(a) Increasing government control over industries	(b) Improving financial discipline
(c) Facilitating modernisation	(d) Raising resources for the government
4. Retaining profit-making PSUs shows that the government:

(a) wanted to stop all foreign investment	(b) wanted to close all PSUs
(c) wanted to strengthen efficient PSUs rather than abandon all of them	(d) opposed all competition

Case 3: Outsourcing

A US-based bank shifts its customer-care and record-keeping operations to a call centre in Gurugram. The services that were earlier provided within the bank are now obtained from an external agency located in India, where wage rates are low and English-speaking skilled workers are available. Similarly, many firms now outsource accounting, medical transcription and even teaching.

1. This practice is known as:

(a) outsourcing	(b) deregulation
(c) devaluation	(d) disinvestment
2. Why is India a favoured destination for such work?

(a) Shortage of skilled workers	(b) Low wage rates and availability of skilled manpower
(c) Strict import quotas	(d) High wage rates
3. Outsourcing is a feature of:

(a) industrial licensing	(b) globalisation
(c) nationalisation	(d) import substitution
4. Outsourcing has mainly boosted the growth of which sector in India?

(a) Services sector	(b) Mining sector
(c) Handicrafts sector	(d) Agriculture sector

PART E: Short Answer Questions (10 × 3 = 30 marks)

Answer in about 60 words each.

1. ★ Explain any three factors that led to the economic crisis of 1991. [3]
2. ★ Distinguish between stabilisation measures and structural reform measures. [3]
3. ★ Explain the foreign exchange reforms undertaken after 1991. [3]
4. ★ Describe the tax reforms undertaken since 1991. [3]
5. ★ What is disinvestment? State any two objectives of disinvestment. [3]
6. ★ What is outsourcing? Why has India become a favoured destination for it? [3]
7. Explain the role of the WTO in promoting globalisation. [3]
8. ★ Why did agriculture growth slow down in the reform period? Give three reasons. [3]
9. ★ Why did industrial growth slow down in the reform period? [3]
10. ★ 'The reform period has witnessed jobless growth.' Comment. [3]

PART F: Short Answer Questions (8 × 4 = 32 marks)

Answer in about 80 words each.

1. ★ Explain the industrial sector reforms introduced after 1991. [4]
2. ★ Explain the financial sector reforms undertaken after 1991. [4]
3. ★ Explain the trade and investment policy reforms. [4]
4. ★ 'In the post-reform period the government decided to retain profit-making PSUs and gave them special status.' Do you agree? Give reasons. [4]
5. ★ Why did India approach the IMF and the World Bank in 1991? What conditions were attached and what was the result? [4]
6. ★ Examine the impact of the reforms on India's service sector. Give any four reasons for its rapid growth. [4]
7. Explain any four benefits of globalisation. [4]

8. ★ Study the following table (illustrative figures for practice only) and answer the questions.
 Average annual growth rate (%): Agriculture: 3.6 (1980–91) and 2.5 (1992–2007); Industry: 6.6 and 6.0; Services: 5.5 and 7.8; GDP: 5.6 and 6.6.
 (i) Which sector's growth rate rose the most? (ii) Which sector's growth rate fell the most? (iii) Give one reason for the fall in agricultural growth. (iv) Give one reason for the rise in services growth. (1 mark each) [4]

PART G: Long Answer Questions (6 × 6 = 36 marks)

Answer in about 120 words each.

- ★ Critically evaluate the economic reforms of 1991, highlighting both their achievements and shortcomings. [6]
- ★ 'Economic reforms have adversely affected the agricultural sector.' Do you agree? Give reasons. [6]
- ★ Explain the three components of the New Economic Policy (Liberalisation, Privatisation and Globalisation) with examples. [6]
- ★ Discuss the impact of reforms on the industrial and service sectors and on employment. [6]
- ★ Discuss the main shortcomings of the reform process in India. [6]
- Examine the impact of globalisation on the Indian economy. Discuss the role of outsourcing, MNCs and the WTO. [6]

PART H: Rapid-Fire Drills (20 marks)

Quick recall practice: Match, Fill in the blanks, and True/False with reasons.

H1. Match the following (6 × 1 = 6 marks)

(i) Stabilisation measures	(a) Sale of part of government equity in PSUs
(ii) Structural reforms	(b) Short-term; correct BoP and control inflation
(iii) Disinvestment	(c) Rule-based multilateral trade body set up in 1995
(iv) Outsourcing	(d) Long-term; raise efficiency and competitiveness
(v) WTO	(e) Hiring services from external agencies
(vi) GST	(f) Unified indirect tax effective 1 July 2017

H2. Fill in the blanks (8 × 1 = 8 marks)

- The NEP of 1991 was announced when _____ was the Finance Minister.
- The first step in foreign exchange reforms was _____ of the rupee.
- Selling part of the equity of PSUs to the private sector is called _____.
- The WTO is the successor to _____.
- After the reforms, the _____ sector became the largest contributor to GDP.
- Reduction of tariffs and removal of quantitative restrictions come under _____ policy reforms.
- Growth of output without a matching growth in employment is called _____ growth.
- The category of PSUs with the highest autonomy is _____.

H3. True or False, with a one-line reason (6 × 1 = 6 marks)

- Liberalisation increased the government's control over private industry.
- Devaluation of the rupee makes imports cheaper.
- Disinvestment always means the complete sale of a PSU.
- The services sector is the largest contributor to India's GDP.
- The reform period saw rapid acceleration of agricultural growth.
- The WTO aims at a rule-based multilateral trading system.