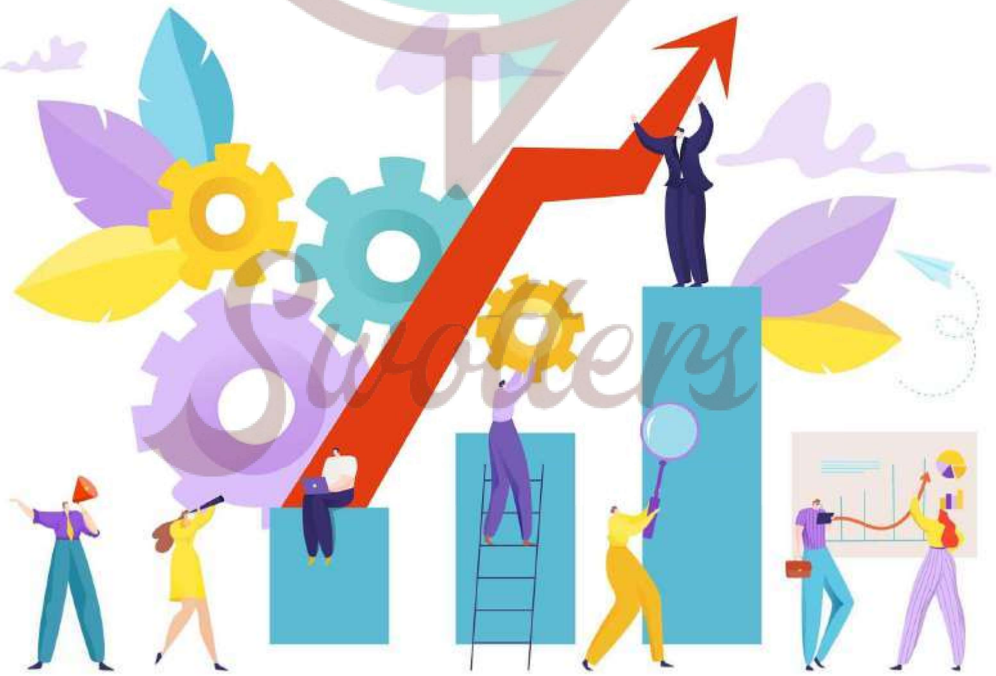
ECONOMICS

(Indian Economic Development)



Important Questions

Multiple Choice questions-

Q1. Mudra bank was set up to meet the credit needs of the …………………

(a) farmers

(b) small enterprises

(c) large enterprises

(d) exporters

Q2. Which of the following replaced mrtp act?

(a) competition act

(b) foreign exchange management act

(c) new companies act

(d) none of these

Q3. To provide refinance facilities to micro-units, an agency named mudra was established by the government. In which year this agency was set up?

(a) 1991

(b) 1999

(c) 2005

(d) 2015

Q4. At present how many industries are exclusively reserved for the public sector in india?

(a) two

(b) three

(c) four

(d) five

Q5. At present the number of industries requiring company licensing is ………………

(a) eight

(b) six

(c) four

(d) five

Q6. For how many industries, licensing is still necessary?

(a) 7

(b) 6

(c) 9

(d) 10

Q7. How many industries are entirely reserved for the public sector?

(a) 6

(b) 10

(c) 2

(d) 4

Q8. What is the investment limit in small scale industries?

(a) 50 lakh

(b) 1 crore

(c) 25 lakh

(d) 75 crore

Q9. When was vat introduced in most of the states of india?

(a) 1995

(b) 2001

(c) 2005

(d) 2006

Q10. How many countries are the members of wto?

(a) 164

(b) 120

(c) 96

(d) 48

Q11. When was wto established?

(a) 1996

(b) 1998

(c) 2000

(d) 1995

Q12. Where is the headquarters of wto located?

(a) italy

(b) geneva

(c) new york

(d) washington

Q13. Disinvestment means selling of public investment to a …………….:

(a) private enterprises

(b) public enterprises

(c) capital market

(d) departmental enterprises

Q14. 100 percent privatization in india has taken place of:

(a) cmc limited

(b) maruti udyog limited

(c) centaur hotel

(d) vsnl

Q15. Cross holding is a method of ………………:

(a) privatisation

(b) globalisation

(c) disinvestment

(d) liberalisation

Very Short:

1. State the meaning of economic reforms.
2. How does increase in fiscal deficit create the requirement of economic reforms?
3. State the name of economic reform which makes free to economy from direct or physical controls imposed by the govt.
4. What is meant by foreign exchange reserve?
5. Why the requirement of fiscal reforms arose under liberalization?
6. What is meant by direct tax?
7. Define indirect tax with the help of example.
8. What is meant by devaluation?
9. State the meaning of privatization.
10. What is meant by globalization?

Short Questions:

1. Explain the occurrence of events which led to introduction of economic reforms in india.

2. Discuss the nature of government's revenue and expenditure prior to economic reforms in india.
3. Write a short note on new economic policy, india.
4. Explain the significance of liberalisation as an element of new economic reforms.
5. State the salient features of trade policy reforms.
6. How were the Indian industries regulated prior to reforms?
7. Discuss the need for privatisation.What are the ways in which PSUs can be privatised?
8. How can the government improve efficiency of PSUs? Explain giving examples.

Long Questions:

1. What was the need for economic reforms in India? Explain.
2. What were the measures taken under economic reforms to promote privatisation? Explain.
3. Discuss the various strategies which laid the foundation stone for the process of globalisation in India.
4. What are the merits and demerits globalisation?
5. Discuss the benefits of WTO to India.

Case Study Based Question-

1. Read the following hypothetical text and answer the given questions: -
2. Read the following hypothetical text and answer the given questions: -

Assertion Reason Type Question-

1. In these questions, a statement of assertion followed by a statement of reason is given. Choose the correct answer out of the following choices.
   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.

Assertion: India has become a favorite destination of outsourcing for most of MNCs.

Reason: India has vast skilled and cheap manpower which enhances the faith of MNCs for investment in India.

2. In these questions, a statement of assertion followed by a statement of reason is given. Choose the correct answer out of the following choices.

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.

Assertion: After the New Economic Policy was announced in1991, domestic competition has increased.

Reason: Industrial sector reforms abolished industrial licensing for all the projects, except for a shortlist of industries.

Answers key

MCQ answers:

1. (B) small enterprises
2. (a) competition act
3. (d) 2015
4. (b) three
5. (d) five
6. (b) 6
7. (c) 2
8. (b) 1 crore
9. (c) 2005
10. (a) 164
11. (d) 1995
12. (b) Geneva
13. (a) Private enterprises
14. (c) Centaur hotel
15. (c) Disinvestment

Very Short Answers:

1. Ans. Economic reforms refers, those measures which are adopted for the speedy growth of economy, efficiency in production and make

   (a) competitive environment.

2. Ans. Due to increasing fiscal deficit the interest paid by the govt. For the borrowings become

36.4% of the govt. Expenditure. So economic reforms become essential for the govt.

3. Ans. Liberalization.
4. Ans. Stock of foreign currency held with the govt. At given point of time called foreign exchange reserve.
5. Ans. Prior to liberalization, tax structure was highly complicated and evasive. Fearing a heavy burden of taxation, it promote evade the payment of tax, so tax reforms become essential for the govt.
6. Ans. Direct taxes are those taxes, the burden of which cannot be shifted on to other's eg. Income tax.
7. Ans. Indirect taxes are those taxes the burdon of which can be shifted on to other for example sales tax.
8. Ans. Devaluation refers to lowering in the official value of a currency with respect to gold or foreign currency.
9. Ans. Privatization is the general process of involving the private sector in the ownership of operation of a state-owned enterprise.
10. Ans. Globalization may be defined as a process associated with increasing openness growing economic interdependence and deepening economic integration in the world economy.

Short Answers:

1. Answer: The inefficient management of the indian economy led to huge amount of borrowings from national and international financial institutions. As a result, india met with an economic crisis in 1991 due to its failure to repay its borrowings from abroad. Crisis led to rise in prices of essential goods. In order to overcome the crisis, india approached imf and world bank for loan. The imf and world bank announced new economic policy as a condition to support indian economy. Thus, india needed to introduce economic reforms:
   - To maintain sufficient foreign exchange reserves
   - To keep inflation under control
   - To improve economic efficiency
   - To remove rigidities in various areas
   - To increase international competitiveness
2. Answer: The government was not able to generate sufficient revenue from taxation. Lack of revenue was accompanied by problems such as unemployment, poverty and population explosion. The income from psus was also not very high to meet the growing expenditure. On the other hand, the government was spending a large share of its insufficient income on areas which did not provide immediate returns.

   Moreover, the foreign exchange borrowed from other countries and international financial institutions was spent on meeting consumption needs. The government neither made an attempt to reduce such reckless spending nor did it pay sufficient attention to increase its exports to meet growing imports' expenditure.

3. Answer: The imf and world bank announced new economic policy as a condition to support indian economy to overcome crisis. The nep consisted of wide range of economic reforms. The core policies were intended to create a more competitive environment in the economy and remove the barriers to entry and growth of firms.

   This set of policies can broadly be classified into two groups:

   (i) Stabilisation measures: these are short-term measures aimed to correct the weaknesses developed in the balance of payments and to bring inflation under control.

   (ii) Structural reform measures: these are long-term measures initiated to improve economic efficiency and increase its international competitiveness by eliminating the rigidities in various segments of the indian economy.

4. Answer: Liberalisation means liberating the trade and industry of an economy from unnecessary restrictions and making the industries more competitive. It implies making the economy free from direct or physical controls imposed by the government. Partial liberalisation was started in India's economy in the decade of eighties.

   However, the New Economic Policy initiated in 1991 is more comprehensive and focused on reducing the controls by introducing liberal changes in both the external as well as domestic economy. Liberalisation process is based on the assumption that market forces could guide the economy in a more effective way than the government control.

5. Answer: The features of trade policy reforms are:

   There was moderation/reduction in import duty to enhance competitiveness in the domestic market.

   Import quotas had been completely abolished.

   Policy of import licensing had almost been scrapped.

   Export duty had been withdrawn to enhance competitiveness of Indian goods in the international market.

6. Answer. The Indian industries were regulated in the following ways prior to reforms:

   (i) Obtaining industrial license from government officials was mandatcy for every entrepreneur to start a firm, close a firm or to decide the quantity of goods that could be produced.

   (ii) Private sector was not allowed in many industrial categories.

   (iii) Production o.f some goods was reserved for only in small scale industries.

   (iv) Government controlled prices determination and distribution of selected industrial products.

7. Answer: Privatisation means the induction of private management and control in the public

sector enterprises. With a view to improve the performance of the public sector enterprises, the wave of privatisation has spread all over the world. Need for privatisation was felt mainly because of the inefficiency of the public sector enterprises. Thus, the private sector was given a larger space to operate in the areas reserved exclusively for the public sector.

Privatisation can be done by two ways:

(i) By withdrawal governmental control from the management and ownership of public sector companies; and

(ii) By outright sale of public sector companies.

8. Answer: The government has made attempts to improve the efficiency of PSUs by giving them autonomy in taking managerial decisions. For example, to improve efficiency, promote professionalism and enable them to compete more effectively in the liberalised global environment, the government chose nine PSUs and declared them as Navaratnas.

   The first set of navaratna companies is as under.

   - BPCL
   - HPCL
   - IOCL (Indian Oil Corporation Ltd.)
   - ONGC
   - SAIL
   - IPCL
   - BHEL
   - NTPC
   - BSNL

Long Answers:

1. Answer: At the time of independence, building a large public sector was almost unavoidable. The capabilities of India's private sector could not be visualised at that time to make very large investments in the areas like infrastructure. However, by late 1980s the situation had completely changed. By that time, India had developed a strong private sector. Therefore, the argument of a large public sector was no longer valid. Need for economic reforms or New Economic Policy was observed mainly due to following reasons:

   (i) Increase in Fiscal Deficit: By 1991, government expenditures began to exceed its revenue by such large margins, which became unsustainable. Fiscal deficit was increasing year after year due to increase in its non-developmental expenditure. Fiscal deficit was 5.4 percent of GDP in 1981 -82, which increased to 8.4 percent of GDP in 1990-91.

   Interest payments on public debt were amounted to I0 percent of total government expenditure in 1980-81 which increased to 36.4 percent in 1991. Thus, government was fast heading for debt trap. India had lost the faith of international institutions like World Bank and IMF. Hence, it was necessary to begin new economic reforms in the country.

(ii) Adverse Balance of Payments: Balance of payments is an account of all the payments and receipts of one country with other countries. Imports grew at a very high rate unable to match growth in exports. Thus, India faced adverse balance of payment. The country needed foreign exchange to pay for the import of goods and services. The deficit in the balance of payment on current was ₹ 2,214 crore in 1980-81 which rose to ₹ 17,367 crore in 1990-91. Therefore, it was necessary to adopt New Economic Policy to correct the deficit in the Balance of Payment.

(iii) Gulf Crisis: Prices of petroleum increased in 1990-91 due to Iraq War. This Gulf crisis further worsened the balance of payment position of India.

(iv) Rise in Prices: During 1990-91, the level of inflation in the country reached to double digit. As a result, foreign investors had lost their confidence in Indian economy and national capital resources were flying out of the country. Cost of production had taken an upward jump due to high rate of inflation.

(v) Poor Performance of the Public Sector Undertaking: After 1980, most of the public sector undertakings had suffered huge losses. As a result, PSUs have become a liability to the nation. It became inevitable for the government to adopt New Economic Policy.

(vi) Fall in Foreign Exchange Reserves: During 1990-91, foreign exchange reserves declined to a level that was not adequate for imports worth more than two weeks; exports declined and industrial output of the country was crippled.

India had to approach the World Bank and IMF to provide huge loans of $7 billion to bail India out of the crisis. The IMF and World Bank announced New Economic Policy as a condition to support Indian economy to overcome crisis.

2. Answer: The following measures were taken to promote privatisation under New Economic Policy:

(i) Contraction of Public Sector: Earlier for the economic development of India, great importance was given to public sector. However, most of the objectives of economic development have remained unfulfilled.

As a result, policy of contraction of public sector was adopted under economic reforms. Number of industries reserved exclusively for public sector was reduced from 17 to 8 and further to 2, viz. atomic energy and railways transport. All other industries form the part of private sector.

(ii) Disinvestments: In the liberalisation process, the part of the equity of inefficient public sector undertakings was sold to the private sector (public). This is also known as disinvestments. The purpose of disinvestments was mainly to improve financial position and facilitate modernisation.

It was thought that disinvestments could provide strong impetus to the inflow of Foreign Direct Investment. It should be remembered that all of our PSUs are not inefficient. Our Nine PSUs, which are known as 'Navaratnas' of Indian Economy are still playing a leading role in the world market.

3. Answer: The various strategies which laid the foundation stone for the process of globalisation in India are discussed below:

   (i) Foreign Exchange Reforms: In 1991, rupee had to be devalued against foreign currencies in order to correct the widening deficit in the balance of trade. That was the first and most important reform in the external sector which was made in the foreign exchange market. At present, the value of rupee is determined by market on the basis of demand and supply of exports and imports and by FDI or FIIs.

   (ii) Trade and Investment Policy Reforms: Since 1991, the door for foreign investment and technology transfer are opened. Foreign Exchange Regulation Act (FERA), which intended to control the inflow and outflow of foreign exchange, was replaced by a more liberal Foreign Exchange Management Act (FEMA).

   Quantitative restrictions on imports of agricultural products and manufactured consumer goods were also fully removed from April, 2001. Since 1991, tariff rules are reduced and the licensing procedures for imports are removed.

   (iii) Reduction in Tariff: In order to encourage competitiveness, tariff barriers have been withdrawn on most goods traded between India and rest of the world.

4. Answer: Merits of Globalisation

   (i) Globalisation provides exposure to international economies and helps availing advanced technology and inputs from across the globe. This improves quantity as well as quality of production.

   (ii) It helps in improving efficiency of allocation of resources due to more competitive environment.

   (iii) It encourages healthy competition among nations, which helps in improving the quality of goods and services at a competitive price.

   (iv) India's share in the world trade has increased from 0.5 per cent in 1990-91 to 1.1 percent in 2005.

   Demerits of Globalisation

   (i) Many industries (especially small units) may not be able to compete at par with big MNCs. As a result, they might be forced to merge with global enterprises or face a closure.

   (ii) Large scale establishment of MNCs in the developing countries like India might result in monopolies.

   (iii) Globalisation may lead to income inequalities within the country as it will benefit only those who possess latest skills and technology.

5. Answer: The following are the important benefits emerging from the WTO agreement:

   (i) Due to reductions in tariff and non-tariff barriers, there will be development oftrading environment leading to dynamism.

   (ii) Countries like India will be helped in their liberal economic policies due to increase in market access opportunities under the WTO.

   (iii) It is estimated that world income from trade liberalisation could increase from $ II0 billion to $5 10 billion annually.

   (iv) The WTO will strengthen the trade relations among member countries. It will lead to a new trade order.

   (v) India will gain in the long run due to low duties on raw-material, components and capital goods.

   (vi) The TRIPs are not going to harm India and other developing countries because of providing safeguards.

   (vii) India, being a founder member country, has already started to assert itself in the meeting of the WTO council.

   (viii) The WTO agreement will emphasise linkages between trade policies, environmental policies and sustainable development.

Case Study Answer-

1. Answer:
   1. a) absolute poverty
   2. Poverty line
   3. Consumption
   4. per capita expenditure
2. Answer:
   1. d) All of the above
   2. Casualization
   3. Gini Coefficient

   d) all the above

Assertion Reason Answer-

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