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NCERT Solutions for 11th Class Economics: Chapter 3-Liberalisation, Privatisation and Globalisation: An Appraisal

NCERT Solutions for 11th Class Economics: Chapter 3-Liberalisation, Privatisation and Globalisation: An Appraisal

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Exercises

1. Why were reforms introduced in India?

Answer

The economic reforms were introduced in the year 1991 in India to combat economic crisis, relating to its external debt:

→ Various rules and plans introduced by the government for controlling and regulating the economy resulted in hampering the process of growth and development National income was growing at the rate of 0.8%.

→ India was highly indebted country and government was not able to make repayments of loan from abroad.

→ Foreign exchange reserves collapsed as import is more than the export.

→ The inflation level reached 16.8% which ultimately increases the prices of essential goods.

→ India took loan from IMF and World bank to the extent of 7 billion dollars. In pressure, government have to liberalise its market.

2. Why is it necessary to become a member of WTO?

Answer

It is important for any country to become a member of WTO (World Trade Organisation) for the following reasons:

→ WTO provides equal opportunities to all its member countries to trade in the international market.

→ It provides its member countries with larger scope to produce at large scale to cater to the needs of people across the international boundaries. This provides ample scope to utilise world resources optimally and provides greater market accessibility.

→ It advocates for the removal of tariff and non-tariff barriers, thereby, promoting healthier and fairer competition among different producers of different countries.

→ The countries of similar economic conditions being members of WTO can raise their voice to safeguards their common interests.

3. Why did RBI have to change its role from controller to facilitator of financial sector in India?

Answer

After economic liberalisation and financial sector reforms, RBI needed to shift its role from a controller to facilitator of the financial sector. This means that the financial sector may be allowed to take decisions on many matters without consulting the RBI.The reform policies led to the

establishment of private sector banks, Indian as well as foreign.

4. How is RBI controlling the commercial banks?

Answer

All the banks in India are controlled through various norms and regulations of the RBI. It controls the commercial banks via various instruments like Statutory Liquidity Ratio (SLR), Cash Reserve Ratio (CRR), Bank Rate, Prime Lending (PLR), Repo Rate, Reverse Repo Rate and fixing the interest rates and deciding the nature of lending to various sectors. These are those ratios and rates that are fixed by RBI and it is mandatory for all the commercial banks to follow or maintain these rates.

5. What do you understand by devaluation of rupee?

Answer

Devaluation of Rupee refers to the fall in the value of rupee in terms of foreign currency. This means that value of rupee has fallen and the value of foreign currency has risen.

6. Distinguish between the following

(i) Strategic and Minority sale

	Strategic Sale	**Minority Sale**
(i)	Strategic Sale refers to the sale of 51% or more stake of a PSU to the private sector who bids the highest.	Minority Sale refers to the sale of less than 49% stake of a PSU to the private sector.
(ii)	The ownership of PSU is handed over to the private sector.	The ownership of PSU still remains with the government as it holds 51% of stakes.

(ii) Bilateral and Multi-lateral trade

	Bilateral Trade	**Multilateral Trade**

(i)	It is a trade agreement between two countries	It is a trade agreement among more than two countries.
(ii)	This is an agreement that provides equal opportunities to both the countries.	This is an agreement that provides equal opportunities to all the member countries in the international market

(iii) Tariff and Non-tariff barriers.

	Tariff Barriers	**Non-tariff Barriers**
(i)	It refers to the tax imposed on the imports by the country to protect its domestic industries.	It refers to the restrictions other than taxes, imposed on imports by the country.
(ii)	It includes custom duties, export-import duties	It includes quotes and licenses.
(iii)	It is imposed on the physical units (like per tonne) or on value of the goods imported.	It is imposed on the quantity and quality of the goods imported.

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7. Why are tariffs imposed?

Answer

Tariffs are imposed to make imports from foreign countries relatively expensive than domestic goods. This discourage imports and protect domestically produced goods.

8. What is the meaning of quantitative restrictions?

Answer

Quantitative restrictions are specific limits imposed by countries on the quantity or value of goods that can be imported or exported. It can be in the form of a quota, a monopoly or any other quantitative means.

9. Those public sector undertakings which are making profits should be privatized. Do you agree with this view? Why?

Answer

The PSUs which are making profits should not be privatized because they are revenue generator for the government. But if a PSU is an inefficient and loss making one, then the same PSU exerts unnecessary burden on the government's scarce revenues and further may lead to budget deficit. The loss making PSUs should be privatised. Further some of the PSUs like, water, railways, etc. enhance the welfare of nation and is meant to serve general public at a very nominal cost. Privatisation of such important PSUs will lead to loss of welfare of poor people. Hence, only less important PSUs should be privatised while leaving the core and important PSUs to be owned by the public sector. Instead of privatisation of profit-making PSUs, government can allow more degree of autonomy and accountability in their operations, which will not only increase their productivity and efficiency but also enhance their competitiveness with their private counterparts.

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10. Do you think outsourcing is good for India? Why are developed countries opposing it?

Answer

Yes, outsourcing is good for India because:

→ Employment: For a developing country like India, employment generation is an important objective and outsourcing proves to be a boon for creating more employment opportunities. It leads to generation of newer and higher paying jobs.

→ Exchange of technical know-how: Outsourcing enables the exchange of ideas and technical know-how of sophisticated and advanced technology from developed to developing countries.

→ International worthiness: Outsourcing to India also enhances India's international worthiness credibility. This increases the inflow of investment to India.

→ Encourages other sectors: Outsourcing not only benefits the service sector but also affects other related sectors like industrial and agricultural sector through various backward and forward linkages.

→ Contributes to human capital formation: Outsourcing helps in the development and formation of human capital by training, imparting them with advanced skills, thereby, increasing their future scope and their suitability for high ranked jobs.

→ Better standard of living and eradication of poverty: By creating more and higher paying jobs, outsourcing improves the standard and quality of living of the people in the developing countries. It also helps in reducing poverty.

→ Greater infrastructural investment: Outsourcing to India requires better quality infrastructure. This leads to the modernisation of the economy and larger investment by the government to develop quality infrastructure and develop quality human capital.

Developed countries opposing this because outsourcing leads to the outflow of investments and funds from the developed countries to the developing nations. Also the MNCs contribute more to the development of the host country than the home country. It also resulting in unemployment in the countries where it is located.

11. India has certain advantages which make it a favourite outsourcing destination. What are these advantages?

Answer

The advantages which make it a favourite outsourcing destination are:

→ Easy Availability of Cheap Labour: As the wage rates in India are comparatively lower than that of in the developed countries, MNCs find it economically feasible to outsource their business in India.

→ Skills: Indians have reasonable degree of skills and techniques also knowledge of international language, English.

→ Stable Political Environment: The democratic political environment in India provides a stable and secured environment to the MNCs to expand and grow.

→ Availability of raw material at cheaper rate: India is well enriched in natural resources. This ensures the MNCs cheap availability of raw material and undisturbed and perennial supply of raw materials. This enables proper and smooth operation of MNCs.

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12. Do you think the navaratna policy of the government helps in improving the performance of public sector undertakings in India? How?

Answer

The government has decided to give special treatment to some of the important profit making PSUs. The granting of navaratna status resulted in better performance of these companies They were given greater managerial and operational autonomy, in taking various decisions to run the company efficiently and thus increase their profits.They also became highly competitive and some of them are becoming the giant global players. Therefore, the navaratna policy has certainly improved the performance of these PSUs.

13. What are the major factors responsible for the high growth of the service sector?

Answer

There are various factors which are responsible for the high growth of the service sector:

→ Reforms introduced in 1991, ramoves various restrictions on the movement of international finance which led to huge inflow of foreign capital, foreign direct investments and outsourcing to India. This encouraged the service sector growth.

→ Availability of cheap labour and and skilled labour at lower wage rate.

→ The revolution in Information Technology (IT) field in India has also played a major role in the high growth of the service sector.

→ Indian economy is experiencing structural transformation that implies shift of economic dependence from primary to tertiary sector. Due to this transformation, there was increased demand of services by other sectors which y boosted the service sector.

14. Agriculture sector appears to be adversely affected by the reform process. Why?

Answer

The economic reforms of 1991 have not been able to benefit agriculture, where the growth rate has been decelerating. The reasons are:

→ Public investment in agriculture sector especially in infrastructure, which includes irrigation, power, roads market linkages and research and extension, has been reduced in the reform period.

→ Removal of subsidies on fertilisers pushed up the cost of production of agriculture. This made farming more expensive, thereby, adversely affecting the poor and marginal farmers.

→ Since the commencement of WTO, this sector has been experiencing a number of policy changes such as reduction in import duties on agricultural products, removal of minimum support price and lifting of quantitative restrictions on agricultural products.

15. Why has the industrial sector performed poorly in the reform period?

Answer

The industrial sector has performed poorly in the reform period due to:

→ The cheaper imports of foreign goods have replaced the demand of domestic goods.

→ Due to lack of infrastructure, the domestic firms could not compete with their developed foreign counterparts in terms of cost of production and quality of goods.

→ Developing countries like India still does not have the access to global markets of developed countries due to high non-tariff barriers.

→ The domestic industries were given protection during the pre-liberalised period but at the time of liberalisation, the domestic industries were still not developed up to the extent it was thought and consequently, they could not compete with the multi-national companies.

16. Discuss economic reforms in India in the light of social justice and welfare.

Answer

If the economic reforms have given us an opportunity in terms of greater access to global markets and high technology, it has also compromised the welfare of people belonging to poor section. It devastated the local producers as well as the farmers. It results in the greater inequalities of income and wealth. Further, the economic reforms developed the areas that were well connected with the metropolitan cities leaving the remote and rural area undeveloped. It results in growth of service sector of India especially in the form of quality education, superior health care facilities, IT, tourism, multiplex cinemas etc. were out of the reach of the poor section of the population.

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Organise pre-service and in-service training of teachers; develop and disseminate innovative educational techniques and practices;collaborate and network with state educational departments, universities, NGOs and other educational institutions; act as a clearing house for ideas and information in matters related to school education; and act as a nodal agency for achieving the goals of Universalisation of Elementary Education.
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