

NCERT Solutions for Class 11 Economics for chapter 3 Liberalisation Privatisation And Globalisation An Appraisal

Exercises

Question 1. Why were reforms introduced in India?

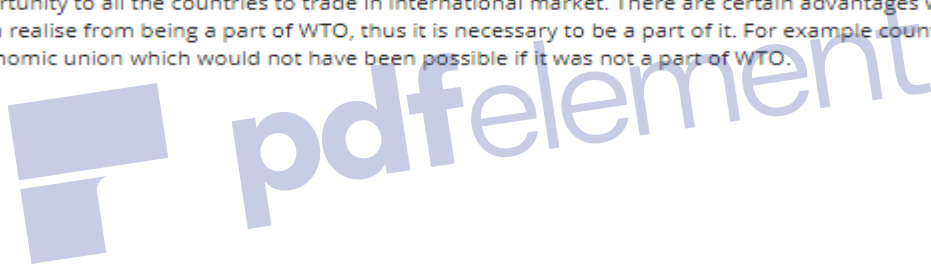
Answer.

During 1990, government of India was under the huge burden of external debt. Debt included huge loans from banks and international institutions. Foreign exchange reserves were also very low and were not sufficient to survive for a long time. Prices of essential goods were rising exponentially and were increasing inflation. All these factors led to a situation of economic crisis. To manage the crisis, India received \$7 billion loan from World Bank and International Monetary Fund on a condition that New Economic Reforms would be introduced which would liberalise and open up the economy.

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

Answer.

WTO is an international institution which administers rules and regulations for international trade. It provides equal opportunity to all the countries to trade in international market. There are certain advantages which a country can realise from being a part of WTO, thus it is necessary to be a part of it. For example country can be a part of economic union which would not have been possible if it was not a part of WTO.



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

Answer.

RBI had to change its role from controller to facilitator of financial sector so that there could be more autonomy in functioning of the financial sector. Financial sector is composed of institutions such as commercial banks, investment banks, rural banks, stock exchanges and foreign exchange market. RBI sets the norms and regulations for the banking sector and exercises control over the financial sector by setting up various rates of interest. Changing its role from controller to mere facilitator allowed financial sector take important decisions by itself without consulting the RBI. This change of role promoted decentralisation in the financial sector and reduced the significant amount of workload for RBI. This also played an essential role in expansion of financial sector and encouraged private sector to increase its participation in financial sector.

Question 4. How is RBI controlling the commercial banks?

Answer.

Commercial banks are controlled by RBI or Reserve Bank of India

RBI fixes Statutory Liquidity Ratio and Cash Reserve Ratio which decides the reserves to be kept by banks with them and RBI in form of cash, deposits, gold and securities.

RBI sets various interest rates like repo, reverse repo rate and bank rate at which banks can lend or borrow from RBI and other banks.

RBI sets the upper limits on lending by banks for various purposes, this helps in controlling credit creation in the economy.

Question 5. What do you understand by devaluation of rupee?

Answer.

Devaluation of rupee is lowering the value of rupee in terms of other currencies by the government. This is done by government in very specific situations. One such instance was in 1991, when as an immediate measure to resolve economic crisis devaluation of rupee was done by the Indian government. This in turn made imports more expensive and exports cheaper. Devaluation leads to increase in exports and thereby foreign exchange.

Question 6. Distinguish between the following

- (i). **Strategic and Minority sale**
- (ii). **Bilateral and Multi-lateral trade**
- (iii). **Tariff and Non-tariff barriers.**

Answer.

i. Strategic and Minority sale

Strategic sale

Strategic sale refers to complete sell off or more than 51% stake of ownership.

By this control and management of the firm is transferred to the private sector.

Minority sale

Minority sale refers to sale of ownership of PSU by less than 49% in form securities.

By this control and management of PSU is still with government.

ii. Bilateral and Multi-lateral trade

Bilateral Trade

It refers to trade between two countries.

It leads to syncing of trade policy of only two countries which promotes economic cooperation.

Multi-lateral Trade

It refers to trade between more than two countries.

Here trade policies of many countries get negotiated which saves time and resources and provide equal opportunities to all the countries in the international market.

iii. Tariff and Non-tariff barriers

Tariff Barriers

Tariff barriers are the tax levied by the government on imports and exports.

Government receives revenue from levying tariff.

Non-Tariff Barriers

These are restrictions other than tariff on imports and exports like licensing, quotas, etc.

No revenue is generated through the non-tariff barriers.

Question 7. Why are tariffs imposed?

Answer.

Tariffs are imposed on imports to protect domestic industries from foreign competition and discourage consumers from buying imported goods. Tariffs raise the cost of the imports and act as barrier in trade.

Question 8. What is the meaning of quantitative restrictions?

Answer.

Quantitative restriction refers to fixing or limiting the quantity of imports or exports. This is done through quotas and licensing. Government can decide a limit on the quantity of a good to be exported or imported. For example: all the exporters have to bid for their share within that limit or quota. Similarly there is an import quota. The actual demand may far exceed the supply. These restrictions are imposed to protect domestic consumer and producer.

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

Answer.

No, the profit making public sector undertakings should not be privatised as they generate additional revenue for the government. Only the PSU's which are making losses and are inefficient must be privatised as they act as a burden on government and may increase the deficit in the budget. But, if the PSU is working towards the welfare of people by providing services (like water, electricity, railways, etc) at a minimal cost then it should not be privatised as it would lead to a loss of welfare of the people. Hence, only the PSU's which are not making any profit or contributing towards welfare shall be privatised whereas the profit making PSU's must be given more autonomy to further improve their efficiency and productivity which will enhance their performance and help them to make more profits or increase the welfare.

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

Answer.

Yes, in last two decades outsourcing has done wonders for Indian economy.

1. Outsourcing has led to technical advantages which have increased employment opportunities in the economy.
2. Foreign investments in economy have increased in form of Foreign Direct Investment and Foreign Institutional Investment.
3. Disposable income of urban areas has increased exponentially due to rise in employment.
4. Outsourcing has opened new avenues of employment in the country that have led to simultaneous development of industrial and agricultural sector.
5. Services sector (of which outsourcing is a part) has been contributing maximum towards the GDP of the country.

Developed countries are opposing this because there has been an increase in unemployment and outflow of capital from their countries due to outsourcing. Outsourcing is contributing towards development of host countries and leading to competitive environment for these countries. Outsourcing has created a wage war kind of situation in developed countries as jobs are being outsourced from these countries due to cheap wage rates available in other countries.

Question 11. India has certain advantages which makes it a favorite outsourcing destination. What are these advantages?

Answer.

India is a favorite outsourcing destination because

India has one the largest and youngest English speaking workforce with reasonable amount of skill and accuracy. Many of the services such as voice-based business processes, record keeping, accountancy, banking services, music recording, film- editing, book transcription, clinical advice, or even teaching are being outsourced to India.

Multi National Corporations and other corporations find it cheaper and more profitable to outsource their jobs to India due to availability of cheap labour and easy availability of raw materials.

India is considered one best country for ease of doing business.

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

Answer.

Yes, Navratna policy helps in improving the performance of public sector undertakings. Navratana status is conferred to those PSU's which perform exceptionally well i.e. either they are earning high profits or are producing goods which are contributing towards increasing the social welfare. This policy boosts the performance of all these PSU's and encourages them to further improve their productivity. These PSU's produce goods and services for masses and make them available to the masses at very nominal price which wouldn't be possible if it was owned by the private sector. Navaratna status also sets benchmark for other PSU's, which are not performing well or are making losses.



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

Answer.

Service sector comprise of transport, communication, financial, legal and hospitality services. The share of service sector in GDP has increased from 28.5% in 1951 to 52.5% in 2015 due to many factors. Some of them are

1. There has been a boom in the telecommunication services due to new technology e.g. mobile phones, tablets, etc.
2. The information technology sector has been opened for private sector.
3. Growth of IT sector has increased the number of multinational companies which outsource services to India. Like legal advice, computer services etc
4. Many sectors like banking, mutual funds, insurance, and retail have been opened not only to private sector but also to foreign direct investments.
5. Foreign direct investment in India has increased from US\$ 100 billion to US\$ 467 billion in last two decades.
6. India has become a favorite destination for medical treatment, due to its comparatively cheaper services.

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

Answer.

Reforms have adversely affected and not been able to benefit agriculture sector. Growth rate of agriculture sector has been declining after reform process. It is due to following reasons:

Public investment in irrigation, power, and roads to markets, research etc. which played a vital role during green revolution declined in the reform period.

Removal of fertiliser subsidies and other concessions have increased the cost of production. It has severely affected the small and marginal farmers.

After inclusion of India in WTO, a number of policy changes have taken place such as reduction in import duties on agriculture products, lifting of quantitative restrictions. These changes have exposed Indian farmers to international competition.