Marks : 30	FYJC Subject: Economics Topic – CHAPTER 9	Time : 1 Hrs.

Q.1. Multiple Choice Questions (MCQs): (4 Marks)

1. At the end of **June** 1991, foreign currency assets had declined to a great extent.
   (May / June / July / August)

2. The annual rate of inflation reached **16.7** % in August 1991.
   (17.6 / 18.5 / 14.4 / 16.7)

3. Initially, FDI was permitted upto **51** % of the total investment in selected industries.
   (51 / 74 / 75 / 100)

4. The industrial policy of 1956 reserved **17** industries for public sector.
   (16 / 17 / 18 / 20)

Q.2. Explain in short (2 Marks each): (10 Marks)

1. Write any 4 Main objectives of new Economic policy of 1991.

Ans. **Main Objectives of the Economic Policy of The1991:**

1) To plunge the Indian economy into the arena of Globalisation.
2) To bring down the rate of inflation
3) To correct the disequilibrium in the balance of payments.
4) To acquire higher economic growth rate.
5) To build sufficient foreign exchange reserves.
6) To achieve economic stabilisation and to reduce fiscal deficit.
7) To establish international trade relations for free flow of goods without any restrictions.
8) To increase the participation of private sector.

2. Liberalisation.

Ans. **Meaning:** Liberalisation refers to 'economic freedom' or 'freedom for economic decision'. It means producers, consumers and owners of factors of production, are free to take decision to promote their self-interest. Adam Smith in his book, 'Wealth of Nations' suggested that economic liberalisation is the best economic policy to promote economic growth and well being of the people.

The economic policy which leads to reduction if not removal, of barriers in the working of market mechanism and free competition is called economic liberalisation.

Measures taken for Liberalisation :

1) Flexibility of Interest rate: Under the policy of liberalisation, commercial banks have the freedom to determine the rate of interest depending upon the market forces of demand and supply.

2) Freedom for expansion of industries: In this new liberalised era, the industries are free to diversify their production capacity and reduce the cost of production. Earlier, Government used to fix the maximum limit of production capacity. No industry could produce beyond that limit. Now the industries are free to decide their own production limit on the basis of market requirements.

3) Abolition of Monopolies and Restrictive Trade Practices: According to MRTP Act of 1969, all those companies having assets worth Rs. 100 crores and more were classified as MRTP firms, and were subject to several restrictions. Now these firms have the freedom to take investment decisions.

4) Reforms in FERA: To bring about flexibility in the laws relating to foreign exchange. Foreign Exchange Regulation Act (FERA) was replaced by Foreign Exchange Management Act (FEMA). This would encourage international trade.

5) Investments in infrastructure: Infrastructure was opened to domestic as well as foreign investors. They could invest in rail, roads and power projects.

6) Encouragement to foreign technology: Liberalisation has allowed the use of foreign technology in high priority industries. This helps to reduce the cost and make the industries competitive.

7) SEBI (Securities and Exchange Board of India): SEBI was established on 12thApril 1992. This step was introduced to protect the interest of investors in securities, promote development and regulate the securities market.

3. Privatisation

Ans. **Meaning:** Privatisation means transfer of ownership from public to private sector. In the broader sense, it means introduction of private management and control with or without change in ownership of public enterprise. In simple words, Privatisation refers to a process that reduces the involvement of the public sector and increases that of private sector in economic activities.

Measures taken for Privatisation :

1) Disinvestment: It is the act of selling shares of sick public sector units to the private sector, e.g. Disinvestment of Maruti, ITDC hotels, IPCL, VSNL etc.

2) Dereservation policy: The Industrial Policy of 1956 reserved 17 industries for the public sector. NEP reduced this number to eight, gradually to three and then two. At present only railway transport and atomic energy are reserved for the public sector.

3) Establishment of BIFR (Board of Industrial and Financial Reconstruction): NEP has set up Board of Industrial and Financial Reconstruction to take decision regarding, sick public sector units. By the end of 1996, 188 cases of sick public sector units were referred to BIFR.

4) Creation of National Renewal Board (NRB): When the loss making public sector units are closed, the workers have to face the problem of unemployment and poverty. To solve this problem, government has created National Renewal Board (NRB). NRB takes the responsibility of providing compensation to the retrenched workers as well as those seeking voluntary retirement.

5) Navratna Status: During 1997-98, nine public sector units were selected and given the status of' Navratnas' on the basis of their performance. These Navratnas were given full financial and managerial autonomy. These Navratnas are as follows:

1) IOC: Indian Oil Corporation.
2) ONGC: Oil and Natural Gas Corporation.
3) HPCL: Hindustan Petroleum Corporation Ltd.
4) BPCL: Bharat Petroleum Corporation Ltd.
5) IPCL: Indian Petrochemicals Corporation Ltd.
6) VSNL: Videsh Sanchar Nigam Limited
7) BHEL: Bharat Heavy Electricals Ltd.
8) SAIL: Steel Authority of India Ltd.
9) NTPC: National Thermal Power Corporation

4. Globalisation.

Ans. **Meaning:**

Globalisation has been the ultimate aim of the new economic policy. To be more specific, liberalisation and privatisation finally lead to globalisation of the economy.

Globalisation means the creation of global economy. A Global economy is a borderless economy having a free flow of goods and services, capital, labour and technology across the national borders. In other words 'Globalisation' means integrating the economy of a country with the world economy. It removes all barriers in free trade and investments.

Measures taken for Globalisation:

1) Removal of quantitative restrictions: All the quantitative restrictions have been removed on imports and exports. Further tariff rates have been brought down considerably. The import duty on industrial goods have been reduced.

2) Encouragement to Foreign Capital: Government has opened the economy to foreign investments. As a result, foreign capital is attracted towards various sectors. Indian economy has become a part of global economy.

3) Convertibility of Rupee: Exchange rate of rupee has been made flexible. Rupee is made fully convertible to a II current account transactions.

4) Foreign collaboration: Indian companies are allowed to enter into important foreign collaboration, e.g. Maruti-Suzuki, Hero-Honda, Tata-Corus deal of iron and steel in South Africa.

5) Long term trade Policy: To ensure longer duration in foreign trade, changes were made in the foreign trade policy.

Main features of this policy included:

a) Liberalised policy

b) Removal of restrictions on foreign trade.

c) Encouragement to Foreign Collaboration.

6.) Encouragement to Exports: Through EXIM policy, various incentives are given to exporters. Special Economic Zones are created to encourage exports.

5. Dereservation policy.

Ans. **Dereservation policy:** The Industrial Policy of 1956 reserved 17 industries for the public sector. NEP reduced this number to eight, gradually to three and then two. At present only railway transport and atomic energy are reserved for the public sector.

Q.3. Answer the following: **(16 Marks)**

1) State the features of economic policy of 1991.

Ans. **1) Delicensing:** it means abolition of government licence required to carry on any business or industrial activity. All industries except 18 specified industries of strategic importance required licence. As per the Dept. of Industrial Policy and Promotion, Government of India, only the following four industries require compulsory licensing:

1) Electronic Aerospace and defence equipment

2) Industrial Explosives

3) Hazardous chemicals, drugs and pharmaceuticals.

4) Cigarettes

2) Abolition of Monopolies and Restrictive Trade Practices (MRTP) Act: According to MRTP Act, it was compulsory for large industrial houses to take the approval of Central government for establishment, expansion, merger etc. This resulted in slow industrial growth. Abolition of MRTP Act has encouraged industrial growth.

3) Encouragement to small sector: The government encouraged small sector units to attain a higher growth rate in output, employment and export sector. Its investment limit was increased from 1 crore to 5 crores.

4) Encouraging foreign investment: Industrial policy of 1991 approved Foreign Direct Investment (FDI) to encourage investment in high priority industries requiring high investment and technology. Initially FDI was permitted upto 51% of total investment in selected industries. Later this limit was raised to 74% and then 100% for specific industries.

5) Reducing role of Public Sector: Many changes were made in the public sector policy to include following objectives:

a) Ending state monopoly

b) Improving efficiency of public sector

c) Releasing capital blocked in sick public sector enterprises

To encourage private sector, NEP reduced the number of industries in public sector from 17 to 8. From 2014, there are only two industries reserved for public sector which include railways and atomic energy.

6) Trade Liberalisation : Import licensing controls have been abolished. Almost all capital goods, raw materials, intermediate goods and other components were made freely importable. Established exporters are allowed to raise external credit to finance their trade. Special Economic Zones (SEZ) are set up to promote exports. The Government has also introduced the concept of Agro Export Zones (AEZ) to encourage agricultural exports.

7) Reforms in Insurance Sector: Insurance sector was a monopoly of the government. The new policy passed Insurance Regulatory and Development Authority Act (IRDA) in 1999 to introduce reforms in this sector. The IRDA has given licence to many private companies to enter insurance business. This has ended the monopoly of Government in this sector.

8) Reforms in financial sector: Earlier only co-operative banks and public sector banks were permitted to do banking business in the financial sector. The new economic policy has also permitted the entry of new private banks and foreign banks.

2) Explain the measures taken for Liberalisation.

Ans. **Measures taken for Liberalisation :**

1) Flexibility of Interest rate: Under the policy of liberalisation, commercial banks have the freedom to determine the rate of interest depending upon the market forces of demand and supply.

2) Freedom for expansion of industries: In this new liberalised era, the industries are free to diversify their production capacity and reduce the cost of production. Earlier, Government used to fix the maximum limit of production capacity. No industry could produce beyond that limit. Now the industries are free to decide their own production limit on the basis of market requirements.

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