Marks : 40	FYJC Subject: Economics Topic - Economic policy of India Since 1991 (CHAPTER 9)	Time: 1.5 hrs.

Q.1. Complete the following statements by choosing the correct alternative: (5 Marks)

1. After independence, India had adopted <u>Mixed Economy</u>.
   a) Socialism
   b) Capitalism
   c) Mixed Economy
   d) Communism

2. The new economic policy approved foreign technology in <u>high priority industries</u>.
   a) Cottage industries
   b) Small scale industries
   c) Micro enterprises
   d) high priority industries

3. At present, the Number of industries reserved for public sector has been reduced to <u>2</u>.
   a) 3
   b) 5
   c) 7
   d) 2

4. Integration of the economy of a country with the world economy is called <u>Globalisation</u>.
   a) Privatisation
   b) Liberalisation
   c) Globalisation
   d) Demonetisation

5. SEBI was established on 12^{th} April <u>1992</u>.
   a) 1990
   b) 1991
   c) 1992
   d) 1993

Q.2. Find the odd word out: (5 Marks)

1. New Economic Policy -
   Liberalisation, Privatisation, Demonetisation, Globalisation

Ans. Demonetisation

2. Industries requiring compulsory licensing -
   Defence equipment, agro – based Industries, cigarettes, industrial explosives

Ans. agro – based Industries

3. Navratna status companies –
   SPCL, IOC, ONGC, HPCL

Ans. SPCL

4. Liberalisation dealt with the following –
MRTP, FERA, SEBI, NTPC

Ans. NTPC

5. Major achievements of the economic policy of 1991 –
Increase in exports, improvement in educational standards, close down of sick units, Revolution in IT sector.

Ans. close down of sick units

Q.3. Identify and explain the concepts. (Any Two) (4 Marks)

1. Vehicles manufactured by various automobile companies are now available in India.

Ans. **(A) Identified concept**: Trade liberalisation.

(B) Explanation of concept: Trade liberalisation is a practice in which import licensing controls are abolished and import of various goods is made easy.

2. Government equity in some public sector enterprises is sold to the private sector.

Ans. **(A) Identified concept**: Privatisation.

(B) Explanation of concept: Privatisation means transfer of ownership from public sector to private sector. In the above illustration, by selling government equity in some public sector enterprises to the private sector, the transfer of ownership is followed.

3. Foreign investments are encouraged on a large scale in the industrial sector of India.

Ans. **(A) Identified concept:** Liberalisation.

(B) Explanation of concept: Liberalisation refers to economic freedom or freedom for economic decision.

4. New areas are developed near airports for facilitating business activities.

Ans. **(A) Identified concept**: Special Economic Zone (SEZ).

(B) Explanation of concept: Special economic zones are areas in which business and trade laws differ from the rest of the country. SEZ are set up to promote export of goods.

Q.4. Do you agree or disagree with the following statements? Give Reasons: (Any Three) (12 Marks)

1. Liberalisation has permitted the use of foreign technology.

Ans. **Yes, I agree** with this statement.

Reasons:

(1) Liberalisation has allowed the use of foreign technology in high priority industries.

(2) The use of foreign technology reduces the cost of production.

(3) The use of foreign technology also make the industries competitive.

Thus, liberalisation has permitted the use of foreign technology.

2. Government has given private enterprises free access to public sector.

Ans. **Yes, I agree** with this statement.

Reasons:

(1) By disinvestment, government sell shares of sick public sector units to the private sector. For example, disinvestment of Maruti, VSNL, etc.

(2) By dereservation policy, private enterprises has given free access to public sector except railway transport and atomic energy.

(3) During 1997-98, nine public sector units were selected and were given the status of 'Navratnas' and were given Financial and managerial autonomy, For example, Oil and Natural Gas Limited (ONGC), Bharat Heavy Electrical Limited (BHEL).

Thus, government has given private enterprises free access to public sector.

3. Government has monopoly in insurance sector.

Ans. **No, I do not agree** with this statement.

Reasons:

(1) The new economic policy passed Insurance Regulatory and Development Authority Act (IRDA) in 1999 with the aim of introducing reforms in insurance sector.

(2) The IRDA has given licence to many private companies to start insurance business.

(3) IRDA has ended the monopoly of government in insurance sector.

Thus, government has no monopoly in insurance sector.

4. The creation of National Renewal Board was done to remove poverty.

Ans. **Yes, I agree** with this statement.

Reasons:

(1) Due to closing down of loss making public sector units, the workers have to face a problem of unemployment and poverty.

(2) National Renewal Board (NRB) was established to solve the problem of these unemployed workers.

(3) NRB takes responsibility of providing compensation to the retrenched workers or the workers taking voluntary retirement.

Thus, the creation of National Renewal Board was done to remove poverty.

5. Indian Oil corporation is one of the public sector units among ‘Navratnas’.

Ans. **Yes, I agree** with this statement.

Reasons:

(1) During 1997-98, nine public sector units were selected and given the status of 'Navratnas' on the basis of their performance.

(2) These nine 'Navratnas' were given full financial and managerial autonomy.

(3) Indian oil corporation is one of these nine 'Navratnas'.

Thus, Indian Oil Corporation is one of the public sector units among 'Navratnas'.

Q.5. Read the following passage carefully and answer the questions given below: (4 Marks)

1. Indian ice-cream industry is one of the fastest growing segments of the dairy and food processing sector. India has a low per capita consumption of ice-cream of 400 ml whereas in USA it is 22,000 ml and in China it is 3000 ml.

The per capita consumption of ice-cream is low in India because it is a country filled with traditional sweets of more than 100 varieties. In developed countries, people have either pastries or ice-creams for dessert. In the era of Globalisation, the mindset of the people is fast changing. This is because multi-national companies have set up a number of ice-cream parlours, with a lot more varieties and flavours that attract the younger lot. Besides this, there are better delivery systems.

The ice- cream sector has great potential for growth in the country due to improvement in the cold chain infrastructure, increasing disposable income and changing lifestyle of the people. However, it is taxed higher with 18 percent GST while other dairy products in the same basket such as butter and cheese are taxed at 12 percent.

The ice – cream industry has generated revenue of more than $ 1.5 billion in 2016-17. With an employment of 15 lakh people directly or indirectly. It is also considered one of the largest employers of the dairy and food processing industry.

Questions:

1. Identify the reason for low per capita consumption of ice-cream in India.

Ans. The reason for low per capital consumption of ice-cream in India is availability of traditional sweets of more than 100 varieties.

2. Explain the impact of Globalisation on the Indian ice – cream industry.

Ans. Globalisation has changed the mindset of people. Due to globalisation, multi-national companies have set up a number of ice-parlours in country. More varieties and flavours of these MNCs are attracting young population of India. These factors have boosted Indian ice-cream industry.

3. Find out the factors that could lead to the growth of ice-cream industry in India.

Ans. Improvement in the cold chain infrastructure, increasing disposable income, changing life style of people, etc. are the factors that could lead to the growth of ice-cream industry in India.

4. Express your views about the implications of higher GST on ice-cream industry in India.

Ans. 18 per cent GST on ice-cream discourages entrepreneur to invest in ice-cream industry. To boost the ice-cream industry, like other dairy products viz. butter, cheese, etc. ice-cream too should be taxed at 12 per cent GST.

Q.6. Answer in detail (Any one) (10 Marks)

1. Explain the features of economic policy of 1991.

Ans. The following are the features of economic policy of 1991.

(1) Delicensing: Delicensing means abolition of government licence required to carry on any business or industrial activity. In India, all industries except 18 specified industries of strategic importance required licence. As per the Department 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 made compulsory for large industrial units to take the approval of Central government for their establishment, expansion, merger, etc. This resulted in slow industrial growth. After 1991, abolition of MRTP Act has encouraged industrial growth in India.

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

(4) Encouraging foreign investment: New economic policy of 1991 allowed Foreign Direct Investment (FDI) with the aim 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: Under new economic policy of 1991, many changes were made in the public sector policy to fulfill 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 viz. railways and atomic energy.

(6) Trade liberalisation: Under new economy policy of 1991, the import licensing controls have been abolished. Almost all capital goods, raw materials, intermediate goods and other components were made freely importable. In India, established exporters are allowed to raise external credit to finance their business and trade. Special Economic Zones (SEZ) are set up to promote exports. The Government has also introduced Agro Export Zones (AEZ) to encourage agricultural exports.

- **(7)** **Reforms in insurance sector**: Before new economic policy of 1991, insurance sector was a monopoly of the government. The new policy passed Insurance Regulatory and Development Authority Act (IRDA) in 1999 to bring reforms in this sector. The IRDA has given licence to many private companies to run insurance business. This has resulted in the end of the monopoly of Government in this sector.
- **(8)** **Reforms in financial sector**: Before new economic policy of 1991, 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 as well as foreign banks.

2. Explain the measures undertaken for globalization.

Ans. The following are the measures undertaken for globalisation :

- **(1)** **Removal of quantitative restrictions**: promote globalisation, all the quantitative restrictions have been removed on imports and exports. Further tariff rates have been brought down considerably. Similarly, 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 in India. As its effect, Indian economy has become a part of global economy.
- **(3)** **Convertibility of rupee**: To promote globalisation, exchange rate of rupee has been made flexible. Rupee is made fully convertible to all current account transactions.
- **(4)** **Foreign collaboration**: Indian companies are allowed to enter into important foreign collaboration, For example, Maruti-Suzuki, Her 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 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, Agro Export Zones (AEZ) are created to encourage exports.

3. Explain the major achievements of the economic policy of 1991.

Ans. The major achievements of the economic policy of 1991 are as follows :

- **(1)** **Revolution in IT sector**: Globalisation has created a revolution in the IT Sector. It has its increased share in India's Gross Domestic product (GDP). Indian software engineers are in high demand in developed countries like U.S.A., U.K. France, etc.
- **(2)** **Improvement in financial facilities**: Due to entry of private and foreign banks, financial sector has become highly professional and competitive.

Nowadays, domestic banks are providing quick services through credit cards, e-banking, etc. to their customers.

(3) **Improvement in educational standards** : Globalisation has motivate Indian students to go abroad and seek higher education due to availability of flexibility in getting educational loans, scholarships and other required facilities.

(4) **Increase in exports**: Due to globalisation, India's exports have increased considerably. Nowadays, India is not on exporting traditional products but also machinery, chemicals, computers, etc.
Consequently, India's verse balance of payments position is importing.

(5) **Diversification of cropping pattern:** Earlier, Indian farmers were growing only staple food and cash crops. B it now, as per the requirement of globalisation Indian farmers have diversified their cropping pattern from traditional products to non-traditional products. Indian farmers are developing horticulture, floriculture, medicinal plants, etc.

(6) **Solves the problem of scarcity:** Due to liberal imports, country has overcome scarcity of goods and raw materials. This has helped in solving the problem of

4. Explain the major failures of the new economic policy of 1991.

Ans. The major failures of the new economic policy of 1991 are as follows:

(1) **Lack of self-sufficiency**: A country under Globalisation cannot achieve self-sufficiency in food production. It is forced to produce only those goods which are demanded at global level in world market and which are profitable.

(2) **Adverse effect on domestic market**: Due to globalisation and liberalisation domestic markets are adversely affected. They are flooded with imported goods. Due to liberal import policy, imported goods are available at cheaper rate compared to domestic products. Therefore, imported goods are highly handed.

(3) **Affects poor farmers:** The benefits of globalisation are being enjoyed by the rich farmers only. Rich farmers are growing exportable crops.
But poor farmers are left unnoticed. Poor farmers cannot face the competition. As its effect, they are forced to sell their land. They are also facing the problem of indebtedness and poverty.

(4) **Unhealthy competition**: The Indian entrepreneurs cannot face competition with big multi-national companies (MNCs). As a result, they are forced to declare their units as a sick unit or close it down or to sell it out.

(5) **Neglects welfare aspect**: Privatisation of services like health, communication, education has led to heavy charges and fees for maximisation of profit. Hence, in the era of globalisation, welfare aspect has taken a backseat.

(6) **Unemployment**: Many Indian industries are compelled to close down as they cannot face the competition with multinational companies. Hence, large number of workers working in domestic companies are thrown out of jobs. This leads to economic problems like unemployment, poverty and social-economic problem like inequality and discrimination.