

NCERT SOLUTIONS

CLASS - 11th



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Class : 11th
Subject : Economics
Chapter : 2
Chapter Name : Indian Economy

Q1 Define a plan.

Answer. A plan shows in what ways can the resources of the nation be put to use so that there is an optimum utilisation of resources and the benefits uplift the poor leading to growth of the economy and the living standards of the people. It should have some general goals as well as specific objectives which are to be achieved within a specified period of time. In India plans are of 5 years and are called as 'five year plans'. The plan documents not only specify the objectives to be fulfilled in five year of a plan but also what is to be attained over a period of twenty years, called 'perspective plans'. Five year plans are the basis for the perspective plans.

Page : 34 , Block Name : Exercises

Q2 Why did India opt for planning?

Answer. The leaders of independent India came up with an economic system that combined the features of socialism without its drawbacks. India became a socialist society with strong public sector with private property and democracy such that the government would plan for the economy with the private sector being encouraged to be part of the plan.

The central objective of planning is to initiate the process of development which will raise living standards and open up new opportunities to the people for a richer and more varied life, this is why the leaders opted for planning. Planning aims at the allocation of the limited resources into different uses for optimum utilisation of the resources so that the benefits reach out to the whole population and there is economic growth at the same time.

Page : 34 , Block Name : Exercises

Q3 Why should plans have goals?

Answer. A plan shows how the resources of a nation should be put to use so that there is optimum utilization of the resources. Plans should have some general as well as specific objectives which are to be achieved within a specified period of time, in India plans are of five years and are called 'Five Year Plans'. The goals of five year plans are- growth, modernization, self-reliance, and equity. All the goals of a plan do not have equal importance in all the plans. Due to limited resources, choice is to be made for goals of primary importance, it is ensured that the policies do not contradict the goal of the plans.

Page : 34 , Block Name : Exercises

Q4 What are High Yielding Variety (HVY) seeds?

Answer. High Yielding Variety (HVY) seeds are high quality seeds, the use of it increases the production of food grains. The use of these seeds require the use of fertilizer and pesticides in the correct quantities and regular supply of water. The use of HVY seeds increased during the green revolution for the production of large quantities of wheat and rice. This enabled India to achieve self-sufficiency in food grains and it no longer had to be at the mercy of other nations to fulfill its food grain requirements.

Page : 34 , Block Name : Exercises

Q5 What is marketable surplus?

Answer. Marketable surplus is the portion of the agricultural produce sold in the market by the farmers. This is the surplus left after the farmers have enough for their personal consumption.

Page : 34 , Block Name : Exercises

Q6 Explain the need and type of land reforms implemented in the agriculture sector.

Answer.

- At the time of independence, the land tenure system was characterized by intermediaries who collected rent from the actual tillers and did nothing for the improvement of the soil.
- The land holdings owned by the farmers were very small and fragmented. Smaller holdings result in lesser production and use of traditional inputs only.
- The lack of developed marketing system caused the farmers to rely on intermediaries who exploited the poor by paying lesser price than the market price.
- The low productivity of the agricultural sector compelled India to import food grains from the United States of America. Equity in agriculture called for land reforms which referred to change in the ownership of landholdings.
- Steps were taken to abolish intermediaries and make the tillers the owners of the land, giving incentive to them to invest in making improvements provided sufficient capital was made available to them.
- Land ceiling was another policy, fixing the maximum size of land which could be owned by an individual, reducing the concentration of land ownerships in few hands.
- Consolidation of the fragmented land holdings to promote the use of modern technology and equipment was one of the policy measures. This also increased the productivity.
- Farmers were encouraged to pool their land holdings and work together for greater production and higher profits. This was done to curb the problem of sub division of land holdings and small scale farming.

Page : 34 , Block Name : Exercises

Q7 What is Green Revolution? Why was it implemented and how did it benefit the farmers? Explain in brief.

Answer. Green Revolution refers to the increase in production of food grains using High Yielding Variety (HYV) seeds, fertilizers and pesticides in correct quantities and regular supply of water. Green Revolution was implemented because 75% of the country's population was dependent on agriculture and the productivity was too low after the independence, this was because of the lack of adequate infrastructure and use of old technology and depending completely on monsoons.

In the first phase of Green Revolution, the use of HYV seeds and new technology was restricted to affluent states whereas in the second phase, new technology was widespread in a number of states. This enabled India to achieve self-sufficiency in food grains, leading to surplus with the farmers to be sold out in the market, this reduced the price of these goods and helped the poor farmers.

Page : 34 , Block Name : Exercises

Q8 Explain 'growth with equity' as a planning objective.

Answer. Growth refers to an increase in the country's capacity to produce the output of goods and services within the country. It implies either larger stock of productive capital, or a larger size of supporting services. Steady increase in the Gross Domestic Product (GDP) is an indicator of growth in the language of economics.

Equity is a different concept from equality and implies that the benefits of the economic policies and plans reach to each and every citizen of the country and special attention to be given to those who are deprived of the benefits. Growth, modernization, self-reliance, etc. cannot alone improve the living standards of the citizens. A country may have high growth and the most modern technology and also have most of its people living in poverty. It is of prime importance to ensure that the benefits of economic prosperity reach the poor sections as well instead of being enjoyed only by the rich. In addition to growth, modernization and self-reliance, equity is also important. Every citizen should be able to meet his/her basic needs and inequality in the distribution of income should be reduced.

Page : 34 , Block Name : Exercises

Q9 Does modernization as a planning objective create contradiction in the light of employment generation? Explain.

Answer. Modernization refers to the increase in production of goods and services by the use of new technology, such as the use of new varieties of seeds and modern equipment for increasing the output of the farms. It is often felt that the use of modern technology eliminates human inclusion in the workspace, which is incorrect, it is a combination of technology and

humans in the organisations. Modernization, in fact opens new opportunities for the people, such as people are required for the operation of modern technology, to make others acquainted with the technology and its workings.

Modernization does not refer only to the use of modern technology but also changes the social outlook such as recognition that women should have the same rights as men. Unlike traditional society which made women sit at home and allowed men to work, modern society makes use of the talents of women in the workplace. Such society in most occasions is also prosperous. Thus modernization being a planning objective does not contradict the idea of employment generation.

Page : 34 , Block Name : Exercises

Q10 Why was it necessary for a developing country like India to follow self-reliance as a planning objective?

Answer. A nation can promote economic growth and modernization by using its own resources or by using resources imported from other nations. The first seven five year plans gave importance to self-reliance which implies avoiding imports of those goods which could be produced in the country itself, this was necessary to reduce our dependence on other countries. It was feared that dependence on imported food supplies, foreign technology and foreign capital may make India's sovereignty vulnerable to foreign interference in our policies.

Page : 34 , Block Name : Exercises

Q11 What is sectoral composition of an economy? Is it necessary that the service sector should contribute maximum to GDP of an economy? Comment.

Answer. The GDP of a country is derived from different sectors of the economy, namely the agricultural sector, industrial sector and the service sector. The contribution made by each of these sectors makes up the structural composition of the economy.

In some countries, growth in the agriculture sector contributes more to the GDP growth, while in some countries the growth in the service sector contributes more to the GDP growth. As a country develops, it undergoes 'structural change', usually with development the share of agriculture declines and the share of industry becomes dominant. At higher levels of development, the service sector contributes more towards GDP than the other two sectors.

For the development of a country, it is necessary that the service sector should contribute maximum to the GDP of the economy. The increased contribution of the service sector implies job creation, and provides crucial inputs for the economy leading to an increase in investment.

Page : 34 , Block Name : Exercises

Q12 Why was public sector given a leading role in industrial development during the planning period?

Answer. Economists found that poor nations can progress only when they have a good industrial sector, it provides employment which is more stable than that in the agriculture sector, promotes modernization and overall prosperity. This is the reason why five year plans emphasise on industrial development.

The industrial sector was very narrow at the time of Independence, confined to cotton and jute textiles and only two well-managed iron and steel firms. This was because the Indian industrialists did not have the capital to undertake investment in industrial ventures that were required for the development of the economy, also the market was not big enough to encourage industrialists to undertake major projects.

It is principally for these reasons that the state had to play an extensive role in promoting industrial sector. Also because of socialist form of economy, the policies were to be controlled by the state only. The state had complete control of the industries that were vital for the economy, the private sector only followed the paths of the public sector.

Page : 34 , Block Name : Exercises

Q13 Explain the statement that green revolution enabled the government to procure sufficient food grains to build its own stock that could be used during times of shortage.

Answer. Green revolution is the increase in the production of food grains in the country with the use of HYV seeds, fertilisers, pesticides and sufficient irrigation. The spread of green revolution technology enabled India to achieve self-sufficiency in food grains, and did not have to stay at the mercy of other countries for it. Marketed surplus is the proportion of total output left behind after the farmers' consumption which can be sold out in the market. A good portion of the food grains produced during this period was sold by the farmers, this led to the reduction in the price of food grains in relation to other items of consumption. This enabled the government to procure a sufficient amount of food grains to build a stock which could be used in times of food shortage.

Page : 34 , Block Name : Exercises

Q14 While subsidies encourage farmers to use new technology, they are a huge burden on government finances. Discuss the usefulness of subsidies in the light of this fact.

Answer. The green revolution involved the use of new methods and technology, which could create a gap between small and big farmers. To reduce this the government provided loans at a low interest rate to small farmers and subsidized fertilizers so that they could also have access to the needed inputs. This increased their production similar to those produced on large farms.

- Any new technology is looked upto as risky by the farmers, subsidies were needed to encourage the farmers to test the new technology. Economists believe that once technology is found profitable and widely adopted, subsidies should be phased out since their purpose has been served. This implies that once the farmers are well versed with

the use of new technology, subsidies should be removed as the farmers can easily use the modern equipment.

- Subsidies are meant to benefit the farmers, but a substantial amount of fertilizers also benefits the fertilizer industry.
- Among the farmers, the subsidies largely benefit the farmers in more prosperous regions.

Therefore, it is argued that subsidies are a huge burden on the government finances since a large part of it comes from the budget, increasing the fiscal deficits. On the other hand, subsidies help the poor and small farmers to sustain and create new opportunities for themselves. It is argued that subsidies should be removed after their purpose is served as it will increase the dependence of the population.

Page : 34 , Block Name : Exercises

Q15 Why, despite the implementation of green revolution, 65 percent of our population continued to be engaged in the agriculture sector till 1990?

Answer. By the late 1990s, India's agricultural productivity increased sufficiently to enable the country to be self-sufficient in food grains because of the green revolution. On the other hand, 65 percent of the country's population continued to be employed in agriculture even as late as 1990. Economists found that as the country becomes more prosperous, the proportion of GDP contributed by the agriculture sector as well as the proportion of the population working in the sector declines. In India, between 1950-1990, the proportion of GDP contributed by agriculture declined significantly from 51% in 1960-61 to 44% in 1970-71, but the percentage of population dependent on agriculture has decreased merely from 67.50% in 1950 to 64.9% in 1990. This was because the industrial sector and the service sector did not absorb the people working in the agricultural sector as they did not have the technical knowledge and training they would require a lot of resources which they found risky. This was considered as failure of the policies by economists.

Page : 19 , Block Name : Exercises

Q16 Though public sector is very essential for industries, many public sector undertakings incur huge losses and are a drain on the economy's resources. Discuss the usefulness of public sector undertakings in the light of this fact.

Answer. It was found that poor nations can progress only if they have good industrial sector, it provides a more stable employment compared to agricultural sector, promotes modernization and overall prosperity. At the time of independence, Indian industrialists did not have capital to undertake such ventures, even the market was not so big to encourage industrialists. It was for these reasons, the state had to play an extensive role in promoting industrial sector.

Many public sector firms incurred huge losses but continued to function because it is difficult to close a government undertaking even if it drains a nation's resources. Many public sector firms

were originally private firm which were on the verge of closure due to losses, they were then nationalised to protect the jobs. Public sector is not meant for profit making but to promote the welfare of the nation and hence they should be evaluated on the basis of the extent to which they promote the welfare of people and not on profits they earn. Public sector aims at creating more and more employment opportunities, it provides the basic services at reasonable prices which can be used by the majority of the population, for example, the government controls the railways, leading to cheaper fares as it is majorly used by the poorer sections of the country.

Page : 34 , Block Name : Exercises

Q17 Explain how import substitution can protect domestic industry.

Answer. In the first seven plans, trade was characterized by what is known as inward looking trade strategy, technically called as import substitution. This policy aimed at replacing or substituting imports with domestic production. For example, industries were encouraged to produce goods instead of importing them from foreign countries. In this policy the government protected the domestic industries from foreign competition. Protection from import took two forms : tariffs and quotas. Tariffs are taxes imposed on imported goods, making it more expensive and discouraging their use. Quotas specify the quantity of goods which can be imported. These restricted import and protected the domestic firms from foreign competition.

The policy of protection is based on the notion that industries of developing countries are not in a position to compete against more developed economies. It is assumed that if domestic industries are protected they will learn to compete in due course of time

Page : 35 , Block Name : Exercises

Q18 Why and how was private sector regulated under the IPR 1956?

Answer. Industrial Policy Resolution of 1956 was adopted in accordance with the goal of the state controlling the commanding heights of the economy. This resolution classified industries into three categories, the first category included industries which would be owned by the state, the second category consisted of industries in which private sector would supplement the efforts of the state, the third category consisted remaining industries which were to be in the private sector. The private sector was mostly involved in profit making ventures and the agricultural sector was left far behind, because of this, the public sector had to intervene to maintain a balance between the industrial sector and the agricultural sector.

Though there was a separate category as private sector, the sector was kept under state control through a system of licenses. No new industry was allowed unless license was obtained from the government. This was used to promote industry in backward regions, license was easily obtained if the industrial unit was established in backward regions, they were given tax benefits and electricity at lower tariffs. This was to promote regional equality.

Page : 35 , Block Name : Exercises

Q19 Match the following :

1. Prime Minister 2. Gross Domestic Product 3. Quota 4. Land reforms	A. Seeds that give large proportion of output B. Quantity of goods that can be imported C. Chairperson of the planning commission D. The money value of all the final goods and services produced within the economy in one year E. Improvements in the field of agriculture to increase its productivity F. The monetary assistance given by government for production activities
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Answer.

1. Prime Minister 2. Gross Domestic Product	C. Chairperson of the planning commission D. The money value of all the final goods and services produced within the economy in one year.
3. Quota 4. Land reforms	B. Quantity of goods that can be imported E. Improvements in the field of agriculture to increase it's productivity.
5. HYV seeds 6. Subsidy	A. Seeds that give large proportion of output F. The monetary assistance given by the government for the production activities.