

# **NCERT SOLUTIONS**

**CLASS - 11th**



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Class : 11th

Subject : Economics

Chapter : 3

Chapter Name : Economic Reforms

Q1 Why were reforms introduced in India?

Answer. In 1991, India met with an economic crisis relating to its external debt. The government was not able to make repayments on its foreign loans. The crisis was compounded by rising prices of essential goods. All these led the government to introduce a new set of policy measures which changed the direction of our developmental strategies.

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Q2 Why is it necessary to become a member of WTO?

Answer. WTO was established as global trade organization to administer all the multilateral trade agreements by providing equal opportunities to all the countries in the international market for trading purposes. WTO is expected to establish a rule-based trading regime in which nations cannot place arbitrary restrictions on trade.

Being an important member of WTO, India has been in the forefront of framing global rules, regulations, safeguards and advocating the interests of developing countries.

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Q3 Why did RBI have to change its role from controller to facilitator of financial sector in India?

Answer. The financial sector in India is regulated by the Reserve Bank of India. All banks and other financial institutions are regulated through norms of the RBI. It decides the amount of

money the bank can keep with themselves, fixed interest rates, nature of lending to various sectors, etc. Before liberalisation, the RBI regulated the operations of the smaller banks, this led to restricted area of operation and a barrier for taking new and risky steps.

- One of the aims of the financial sector reforms was to reduce the role of RBI from regulator to facilitator of financial sector.
- This was done to ensure greater autonomy in the hands of commercial banks. This meant 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.
- Foreign investment limits in banks was raised to around 50 per cent. Those banks which fulfill certain conditions have been given the freedom to set up new branches without the approval of the RBI and rationalize their existing branch networks.
- Certain managerial aspects have been retained with the RBI to safeguard the interests of the account-holders and the nation.

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Q4 How is RBI controlling the commercial banks?

Answer. The financial sector in India is regulated by the Reserve Bank of India, all the banks and other financial institutions in India are regulated through various norms and regulations of the RBI.

- The RBI decides the amount of money that the bank can keep with themselves, fixed interest rates, nature of lending to various sectors, etc.
- RBI's approval is needed by the banks to set up new branches.
- RBI fixes the limit of the credit amount to be granted for different purposes, it helps the poor.

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Q5 What do you understand by devaluation of rupee?

Answer. Devaluation of the rupee is the decrease in the value of rupee with respect to foreign currencies. Devaluation is a deliberate action to resolve the balance of payment crisis, the rupee

is devalued against foreign currencies, leading to an increase in the flow of foreign exchange. Devaluation reduces the cost of country's exports and helps in reducing the trade deficit.

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Q6 Distinguish between the following

- (i) Strategic and Minority sale
- (ii) Bilateral and Multilateral trade
- (iii) Tariff and Non-tariff barriers

Answer.

(i)

|     | Strategic sale                                                                                                                          | Minority sale                                                                                |
|-----|-----------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| i.  | Strategic sale refers to the sale of 51% or more stake of a Public Sector Undertaking (PSU) to the private sector who bids the highest. | Minority sale refers to the sale of not more than 49% stake of the PSU to the private sector |
| ii. | The ownership of the PSU is handed over to the private sector.                                                                          | The ownership of the PSU still remains with the government as it holds 51% of the stake.     |

(ii)

|  | Bilateral trade | Multilateral trade |
|--|-----------------|--------------------|
|--|-----------------|--------------------|

|     |                                                                               |                                                                                                      |
|-----|-------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
| i.  | It is a trade agreement between the 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 agreement provides equal opportunities to all the member countries in the international market. |

(iii)

|      |                                                                                            |                                                                                    |
|------|--------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|
|      | Tariff Barriers                                                                            | Non-tariff Barriers                                                                |
| i.   | It refers to the tax imposed on 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 quotas and licenses                                                    |
| iii. | It is imposed on the physical units (per tonne) or on the value of the goods imported.     | It is imposed on the quantity and quality of the goods imported.                   |

Q7 Why are tariffs imposed?

Answer.

- Tariffs are taxes imposed on the imports of the country.
- These are imposed to promote the use of goods produced in the country rather than getting them imported from other countries.
- It encourages producers within the country to take up new ventures.
- The main purpose of a tariff is to help the growth of the domestic market.

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Q8 What is the meaning of quantitative restrictions?

Answer. Quantitative restrictions are the specific restrictions imposed by countries on the quantity or value of goods that can be imported or exported. It can be in the form of quota, monopoly or any other form of quantitative restrictions. This is done to reduce imports from foreign countries and promote the goods in the domestic markets.

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Q9 Those public sector undertakings which are making profits should be privatized. Do you agree with this view? Why?

Answer. Public sector enterprises are enterprises that are set with the intention of providing infrastructure and direct employment opportunities to the public so that quality end-product reach to the masses at a nominal cost and the companies are themselves accountable to the stakeholders.

In my opinion, the public sector undertakings that are making profits should not be privatised. Instead of privatization, they should be given greater managerial and operational autonomy in taking various decisions to run the company efficiently and thus increase their profits. The government must enable them to expand themselves in global markets and raise resources by themselves from financial markets.

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Q10 Do you think outsourcing is good for India? Why are developed countries opposing it?

Answer. Outsourcing is when a company hires regular services from external sources, from other countries, which was previously provided internally.

Most multinational corporations, and even small companies are outsourcing their services to India where they can be availed at a cheaper cost with reasonable degree of skill and accuracy. India is the destination for global outsourcing because of the low wage rates and availability of skilled manpower. It brings more FDI and foreign exchange to the country. Thus, I think outsourcing is good for India.

Developed countries are opposing outsourcing in India, because it leads to outflow of their capital to a developing country and also lead to less job opportunities in developed countries.

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Q11 India has certain advantages which makes it a favourite outsourcing destination. What are these advantages?

Answer. Outsourcing is when a company hires regular services from external sources, from other countries, which was previously provided internally. Outsourcing has intensified in recent times, because of the growth of information technology and fast modes of communication. With the help of modern telecommunication links including the Internet, the text, voice and visual data in respect of the services is digitized and transmitted in real time over the continents and national boundaries.

- Most multinational corporations, and even small companies, are outsourcing their services to India where they can be availed at a cheaper cost with reasonable degree of skill and accuracy. India is the hub of qualified professionals who do the job efficiently.
- The low wage rates and availability of skilled manpower in India have made it a destination for global outsourcing in post-reform period. Labour cost is very low in India. This makes it lucrative source for companies to get the work done without spending large amounts of money.
- Outsourcing reduces the cost for the company and since raw materials and other can be availed at cheaper prices in India, it is preferred for outsourcing. Cost of performing back office functions is reduced.

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Q12 Do you think the navratna policy of the government helps in improving the performance of public sector undertakings in India? How?

Answer. In order to improve efficiency, infuse professionalism and enable them to compete more effectively in the liberalized global environment, the government identifies public sector enterprises (PSEs) and declare them as maharatnas, navratnas, and miniratnas. They were given greater managerial and operational autonomy, in taking various decisions to run the company efficiently and thus increase their profits. The central public sector enterprises are designated with different status. These were set up with the intention of providing infrastructure and direct employment to the public so that quality end-product reaches the masses at nominal cost. Hence, I think the navratna policy of the government helps in improving the performance of the public sector undertakings.

The granting of status resulted in better performance of these companies. The government had decided to retain the firms in public sector instead of disinvestment and enable them to expand themselves in the global markets and raise resources by themselves from financial markets.

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Q13 What are the major factors responsible for the high growth of the service sector?

Answer.

- Many of the services such as voice-based business processes (BPO or call centres ), record keeping, accountancy, banking services, music recording, film editing, book transcription, clinical advice or even teaching are being outsourced by companies in developed countries to India.
- These services are brought to India because they can be availed at cheaper cost with reasonable degree of skill. It is more profitable to contract services from developing countries and India is made the destination of global outsourcing.
- Inclusion of women in the service sector has opened new services in the business, such as day care, facilities for children, laundry and catering services, etc.
- Emergence of modern technologies and lifestyles require more services, like education, healthcare. New technologies require after sale services which is a new concept.

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Q14 Agriculture sector appears to be adversely affected by the reform process. Why?

Answer. Reforms have not been able to benefit agriculture, where the growth rate has been decelerating.

- Public investment in agriculture sector especially in infrastructure which includes irrigation, power, roads, market linkages and research extension, has fallen in the reform period.
- The removal of subsidy on fertilizer has led to an increase in the cost of production, severely affecting the small and marginal farmers.
- The sector has been experiencing a number of policy changes, reduction in import duties on agricultural products, removal of minimum support price, lifting of quantitative restrictions on agricultural products, adversely affecting Indian farmers.
- Due to export-oriented policy strategies in agriculture there has been a shift from production for domestic market towards production for export market focusing on cash crops. This puts pressure on the prices of food grains.

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Q15 Why has the industrial sector performed poorly in the reform period?

Answer.

- Industrial growth recorded a slow down, because of decreasing demand for industrial products due to cheaper inputs, inadequate investment in infrastructure, etc.
- Developing countries are compelled to open up their economies to greater flow of goods and capital from developed countries and rendering industries vulnerable to imported goods.
- Cheaper inputs have replaced the demand for domestic goods. The infrastructure facilities including power supply have remained inadequate due to lack of investment.
- Globalization is seen as creating the conditions for free movement of goods and services and adversely affect the local industries and employment opportunities in local industries.

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Q16 Discuss economic reforms in India in the light of social justice and welfare.

Answer. Economic reform in India was based on the introduction of the LPG policy that liberalised foreign trade and foreign investment, privatised public sector enterprises and removing barriers for foreign companies to operate in India. This led to an increase in inflow of foreign direct investment and India became exporter of various goods, also the service sector emerged after this act.

- Globalization is a strategy of developed countries to expand their markets in other countries. It has compromised with the welfare and identity of the people belonging to poor countries.
- Market-driven globalization has widened the economic disparities among nations and people.
- It has increased the income and quality of consumption of only high-income individuals.
- Growth has been concentrated only in selected areas in the services sector such as telecommunication, information technology, finance, entertainment, travel, hospitality services, real estate and trade rather than vital sectors such as agriculture and industry which provides livelihood to millions of people in the country.

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