CBSE Test Paper-05

Chapter 08 Economic Reforms Since 1991

1. Which of the following is an example of direct tax **(1)**
   a. Corporation tax
   b. None
   c. Excise duties
   d. Sales tax
2. GATT stands for: **(1)**
   a. Government Agreement on terms of trade
   b. General Agreement on trade and tariff
   c. General Agreement on terms of trade
   d. Governments Association for trade and tariff
3. How many industries are reserved for public sector at present? **(1)**
   a. 10
   b. 3
   c. 17
   d. 4
4. Deregulation of the economy and to introduce the policy of laissez-faire can be achieved through **(1)**
   a. None of these
   b. globalisation
   c. Liberalisation
   d. privatisation
5. What is meant by ‘retaining the golden share’? **(1)**
6. When was new economy policy announced? **(1)**
7. What was the limit of automatic approval for direct foreign investment? **(1)**

8. In the 1980s, government had to overshoot its already low revenues. Why? **(1)**
9. List any five such PSUs that are partly privatised. **(3)**
10. Write the 3-4 positive and negative impacts of LPG policy. **(3)**
11. What are the benefits of globalisation? **(4)**
12. Write a brief note on International Monetary Fund (IMF). Also state its objectives. **(4)**
13. What was Navratna Policy? Make a list of companies included in Navratnas. **(4)**
14. Was it necessary to introduce economic reforms at the behest of World Bank and International Monetary Fund? Was there no alternative to solve the problem of balance of payment crisis? Suggest any other alternative. **(6)**
15. What is new economic policy? Briefly explain it. **(6)**

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Answers

1. a. Corporation tax
   Explanation: Corporation tax is a direct tax which is imposed on the net income of the company.
2. b. General Agreement on trade and tariff
   Explanation: The WTO was founded in 1995 as the successor organisation to the General Agreement on Trade and Tariff (GATT).
3. b. 3
   Explanation: Under Librelisation, Areas other than railways, atomic energy and defence were opened for private sector.
4. c. Liberalisation
   Explanation: Because liberalization aims at freeing economy from government intervention.

5. It refers to withholding a part of the shareholding of public sector undertaking(PSU) by the government in order that enables it to enjoy the future profit. Golden share depends on individual cases. As far as the current status is concerned, it is 26% for PSUs.

6. New economic policy was announced in India in July 1991.

7. The limit of automatic approval for direct foreign investment was 51% for a wide range of industries.

8. Even though the revenues were low in 1980s, the government had to overshoot them to meet problems like unemployment, poverty and population explosion. In order to make programmes and policies to overcome this problem, the government need to overshoot its revenue.

9. Following are the five PSUs which have been partly privatised:
   i. Delhi Vidyut Board.

ii. Videsh Sanchar Nigam Limited.
iii. Steel Authority of India.
iv. Delhi Transport Corporation.
v. National Fertilisers Limited.

10. **Positive impact of LPG policy:**
    - Increase in the growth rate of GDP
    - Safety-check on fiscal deficit
    - Stimulating industrial production

    Negative impact of LPG policy:
    - Ignored agricultural sector
    - Uneven growth process
    - Increase in consumerism
11. Globalisation results in the following benefits for the economy
    i. It helps the economy to adopt new and flexible methods of production.
    ii. It results in raising the productivity of the industrial sector by reducing capital output ratio, increasing exports, raising the efficiency of the workforce, modernising the technology used and increasing capital flow in the country.
    iii. It helps in restructuring the production units of the country towards the production of those goods which the country can produce effectively and efficiently with the use of the domestically available factors of production.
    iv. It helps to increase the flow of foreign capital into the country.
    v. It helps to improve the quality of goods produced in the economy.
    vi. It helps to address the problem of unemployment.
    vii. Advantages from the free movement of labour between countries.
    viii. Gains from the sharing of ideas/ skills/ technologies across national borders.
    ix. Competitive pressures of globalisation may prompt improved governance and better labour protection.
    x. Encourages producers and consumers to benefit from the deeper division of labour and economies of scale.
12. IMF was conceived at the Bretton Woods Conference held in 1944 and set-up in 1946. The main objective of setting up of such an organisation was to administer a code of good conduct in international liquidity of its member countries and to grant short-term loans to economies, experiencing a temporary deficit in Balance of Payments

(BoP). IMF started to function from March 1947.

Its headquarters is located in Washington DC. There are 189 member countries including India. The highest authority of the IMF is the Board of Governors, which consists of the most part of Ministers of Finance or Central Bank Governors of the member countries. Each member country appoints one Governor. The board generally meets only once in a year. The main objectives of IMF are as follows

i. **To promote international monetary cooperation:** IMF provides the machinery for consultation and collaboration on international monetary problems. During the Second World War, IMF had played a vital role to promote monetary co-operation amongst the different countries of the World.
ii. **To promote exchange stability:** Before the Second World War, great instability was prevailing in the foreign exchange rates of different countries which had adversely affected international trade. Thus, IMF has the objective to promote exchange stability and to avoid the bad effects of depreciation on exchange rates.
iii. **Establishment of Multilateral Trade and Payment:**To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions.
iv. **Confidence to member nations:** To give confidence to members by making the general resources of the fund temporarily available to them under adequate safeguards.

13. Originally, the term Navaratna meant a talisman or ornament composed of nine precious gems. Later, this symbology was adopted in the courts of Emperor Vikramaditya and the Mughal Emperor Akbar, where the Navaratnas were a group of nine extraordinary men in their respective courts. In 1997 Govt. of India announced Navratna Policy in order to improve efficiency, enhance professionalism and enable them to compete effectively in the liberalised global environment. The Navratna status is offered to PSEs, which gives a company enhanced financial and operational autonomy and empowers it to invest up to Rs. 1000 crore or 15% of their net worth on a single project without seeking government approval. In a year, these companies can spend up to 30% of their net worth not exceeding Rs. 1000 cr. They will also have the freedom to enter joint ventures, form alliances and float subsidiaries abroad. Under this policy, 9 most profitable PSUs were given status of navratna and 97 other profit making PSUs were called Mini ratnas.

List of companies included in Navratnas is as follows:

i. Indian Oil Corporation Ltd. (IOC)
ii. Bharat Petroleum Corporation Ltd.(BPCL)
iii. Hindustan Petroleum Corporation Ltd.(HPCL)
iv. Oil and Natural Gas Corporation Ltd.(ONGC)
v. Steel Authority of India Limited (SAIL)
vi. Indian Pharmaceuticals Corporation Ltd.(IPCL)
vii. Bharat Heavy Electronics Ltd. (BHEL)
viii. National Thermal Power Corporation Ltd. (NTPC)
ix. Videsh Sanchar Nigham Ltd. (VSNL)

Later two more PSUs were included in the list:

i. Gas Authority of India Limited (GAIL)
ii. Mahanangar Telephone Nigam Limited (MTNL)

14. I think it was necessary to introduce economic reforms at the behest of World Bank and International Monetary Fund although there were a few other alternatives. Since Indian economy was in a very bad position. The foreign reserves were short, BOP was negative and there was urgent need of funds. Considering the situation, the best option for India was to accept the conditions laid down by IMF. Also the economic reforms -LPG were very important for the Indian economy. The domestic industries were performing poorly, the quality of goods was going down, so many PSUs going into losses. It was important to lift the import quotas and liberalise the economy. Flow of better technology, foreign investment, competition from foreign markets, privatisation were all important to lift the condition of Indian Industries and sick PSUs. However we could think of a few other alternatives to solve the problem of BOP crisis.
    One such alternative could be to raise funds from Indian public. Government could raise funds by taking loans from Indians by issuing treasury bills. By making use of these funds in some employment generating printable ventures, we could take the lead further. Reforms could be introduced later on our own terms and conditions. In that case, it would have proved more fruitful.
15. Since 1991, Govt. of India has introduced diverse economic reforms to pull the country out of economic crisis and to accelerate the rate of growth. These reforms hinge upon:

i. The policy of liberalisation in place of licensing for the industries an trade.
ii. The policy of privatisation in place of quotas for the industrialists.
iii. The policy of globalisation in place of permits for exports and imports. These reforms are often described as the New economic policy or the policy of Liberalisation, Privatisation and Globalisation (LPG) which aims at rendering the economy more efficient, competitive and developed.

ELEMENTS OF NEW ECONOMIC POLICY

Liberalisation: It means to free the economy from the direct and physical control imposed by the government.

Measures adopted for Liberalisation:

i. Abolition of industrial licensing.
ii. De reservation of production areas
iii. Expansion of production capacity
iv. Freedom to import capital goods
v. Free determination of interest rates.

Privatisation: It refers to the process of involving the private sector in the ownership of management of state owned enterprises. It implies partial or full ownership and management of public sector enterprises by the private sector.

Measures adopted for Privatisation:

i. Contraction of public sector
ii. Disinvestment of public sector undertakings
iii. Selling of shares of public enterprises

Globalisation: It means integrating the economy of a country with the economies of other countries under condition of free flow trade and capital and movement of persons across borders.

Measures adopted for Globalisation:

i. Increase in equity limit of foreign investment
ii. Partial convertibility of Indian rupees
iii. Long-term trade policy
iv. Reduction in tariffs.