CBSE Test Paper-03

Chapter 08 Economic Reforms Since 1991

1. _____ means the excess of anticipated expenditures over estimated revenue. **(1)**
   a. Loss
   b. Surplus
   c. Profit
   d. Deficit
2. IBRD stands for **(1)**
   a. International Business for Resolution and Development
   b. International Bank for Reconstruction and Disinvestment
   c. International Bank for Reconstruction and Development
   d. International Business for Reconstruction and Development
3. Under the industrial policy of 1991, the number of industries reserved for the public sector have been reduced from 17 to **(1)**
   a. 8
   b. 3
   c. 5
   d. 6
4. Steps taken towards liberalisation **(1)**
   a. Dereservation of industries
   b. Delicensing of imports
   c. All of these
   d. Delicensing of industries
5. Who facilitates bilateral and multilateral trade agreements? **(1)**
6. When was economic reforms introduced in India? **(1)**
7. Name two services outsourced in India. **(1)**

8. Discuss the impact of fiscal sector reforms. **(1)**
9. Globalisation has done more harm than good. Justify your answer. **(3)**
10. How do you find the co-existence of malls and jhuggis in an economy? Had you been the person with authority, what policy changes you would have brought? **(3)**
11. Why were reforms introduced in India? **(4)**
12. What was the impact of reforms on growth and employment in India? **(4)**
13. Why has the industrial sector performed poorly in the reform period? **(4)**
14. Why were reforms introduced in India in 1991? **(6)**
15. What are the major factors responsible for the high growth of the service sector? **(6)**

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Answers

1. d. Deficit
   Explanation: When expenditures exceed revenue, the former is not met and a gap or deficit arises.
2. c. International Bank for Reconstruction and Development
   Explanation: IBRD stands for International Bank for Reconstruction and Development, and is popularly known as the World Bank. It was established in 1944 with the mission of financing the reconstruction of European Nations devastated by the World War II.
3. a. 8
   Explanation: Under the industrial policy of 1991, the number of industries reserved for the public sector were reduced from 17 to only 8, which were considered to be of strategic importance.
4. c. All of these
   Explanation: To liberalise the Indian economy, industrial licensing was abolished, many industries reserved for the public sector were dereserved and import licensing was also abolished in most industries.
5. Bilateral and multilateral trade agreements are being facilitated by WTO.
6. In July 1991
7. Voice-based business process and banking services are the two services outsourced in India. Since India is a labour surplus country, MNCs benefit via outsourcing in India.
8. Fiscal sector reforms had not produced desirable results. Reducing tax rates have not led to increase in government revenue. Reform policies like tariff reduction have reduced the scope of increasing government revenue. Tax incentives offered to attract MNCs has further reduced scope of increasing government revenue. However fiscal sector reforms have helped to raise the rate of savings and investments in India,

which to some extent have further enhanced the productivity of public expenditure.

9. Yes, I agree that globalisation has done more harm than good. It concentrated on the goal of growth but ignored equity. It leads to redistribution of economic power and increases inequalities among nations. One study reveals that in the globalising world, the economies are moving away from each other rather than coming closer. Globalisation is increasing pressure on economies for structural and conceptual readjustments. Indians are going through the pains and uncertainties of structural and conceptual readjustments for the sake of benefits which are yet to come. Globalisation is unfair from the view point of developing countries as none of the MNCs have set up manufacturing plants in India or signed any technology transfer agreement with any Indian company like INTEL, AMO and CISCO. Further MNCs always aim at increasing their profits and capturing markets, they do not care about the welfare of the people. Globalisation is also unfair because of the fact that it has lead to the unemployment in developing countries by making capital intensive techniques possible there.
10. There is co-existence of malls and jhuggis because globalisation has given birth to dual economy. Globalisation has led to misallocation of resources. An economy like India which has 26% people living below poverty line need housing, education, health and not malls, chips, chocolates and cosmetics etc. But what we have seen is that investments are made on those items which increase the profits of the companies, and not on the things which increase the welfare of the people. Had I been a person with the authority, I would have made it compulsory to invest in one of the strategic fields if an MNC wants to invest in any other industry or sector. As a result of which people living below poverty line would be benefited.

11. Mixed economy adopted by India since independence ended up hampering the process of growth and development. The economy was facing problems of declining foreign exchange, growing imports without matching rise in exports and high inflation.
    The following are the factors that necessitated the need for economic reforms.

    i. ***Huge Fiscal Deficit*:** Throughout 1980s, fiscal deficit was getting worse due to huge non-development expenditures. As a result, the gross fiscal deficit rose from 5.7% of GDP to 6.6% of GDP during 1980-81 to 1990-91.

ii. ***Weak BOP Situation*:** Due to the lack of competitiveness of Indian products, India was not able to earn enough foreign exchange through exports to finance our imports.
iii. ***High level of Inflation*:** The high fiscal deficits forced the central government to monetise the fiscal deficits by borrowings from RBI. RBI printed new money that pushed up the inflation level.
iv. ***Sick PSUs*:** Public Sector Undertakings were assigned the prime role of industrialisation and removal of inequality of income and poverty. But the subsequent years witnessed the failure of PSUs to perform these roles efficiently.

12. The study reveals that economic growth which started after independence took momentum after economic reforms were introduced in the economy. Now India is recognized as second fast growing country after china and is emerging as a superpower in the years to come. Although there has been an increase in the growth rates during reform period, however scholars point out that growth has not led to creation of employment opportunities. Private sector job growth increased but couldn't keep pace with the annual increase in labour force and pace of job losses in the public sector. As a consequence number of people working in the organised sector in India as a percentage of total labour force has decreased. This failure of private sector to generate enough jobs to compensate for the shrinking public sector is partly to do with India's terrible educational outcome and the rigidity in the labour market regulation. Moreover, economic reforms had not led to growth of all the sectors equally.

13. The Industrial Sector has performed poorly in the reform period because of decreasing demand for industrial products due to various reasons such as cheaper imports, inadequate investment, infrastructure, etc. Following reasons may be enumerated in this context:

i. Cheaper imports have decreased the demand for domestic industrial goods.
ii. Globalisation created conditions for the free movement of goods and services from foreign countries that adversely affected the local industries and employment opportunities in developing countries.
iii. There was an inadequate investment in infrastructural facilities such as power supply.

iv. A developing country like India still does not have access to developed countries markets because of high non-tariff barriers.
v. The investment made in infrastructure facilities including power supply has remained inadequate and hence domestic industries have not found conditions favourable to compete with foreign goods. Globalisation has led to the free movement of goods and services from foreign countries and thus, caused the local industries to die out and employment opportunities to fall in developing countries like India.

14. The following are the factors that necessitated the need for economic reforms.
    1. ***Huge Fiscal Deficit*:** Throughout 1980s, the fiscal deficit was getting worse due to huge non-development expenditures. As a result, the gross fiscal deficit rose from 5.7% of GDP to 6.6% of GDP during 1980-81 to 1990-91. Subsequently, a major portion of this deficit was financed by borrowings (both from external and domestic source).

       The increased borrowings resulted in increased public debt and mounting interest payment obligations. The domestic borrowings by the government increased from 35% to 49.8% of GDP from 1980-81 to 1990-91. Moreover, the interest payments obligations accounted for 39.1% of total fiscal deficit. Consequently, India lost its financial worthiness in the international market and, fell in a debt trap. Thus, economic reforms were needed urgently.
    2. ***Weak BOP Situation*:** BOP represents the excess of total amount of exports over total amount of imports. Due to the lack of competitiveness of Indian products, India was not able to earn enough foreign exchange through exports to finance our imports. The current account deficit rose from 1.35% to 3.69% of GDP during 1980-81 to 1990-91. In order to finance this huge current account deficit, the Indian government borrowed a huge amount from the international market. Consequently, the external debt increased from 12% to 23% of GDP during the same period. On the other hand, Indian exports were not potent enough to earn sufficient foreign exchange to repay these external debt obligations. This BOP crisis compelled the need for economic reforms.
    3. ***High level of Inflation*:** The high fiscal deficits forced the central government to monetise the fiscal deficits by borrowings from RBI. RBI printed new money that pushed up the inflation level, thereby, making the domestic goods more

expensive. The rate of inflation rose from 6.7% p.a. to 10.3% p.a. during 1980s to 1990-91. In order to lower the inflation rate, the government in 1991 had to opt for economic reforms.

4. ***Sick PSUs*****:** Public Sector Undertakings were assigned the prime role of industrialisation and removal of inequality of income and poverty. But the subsequent years witnessed the failure of PSUs to perform these roles efficiently and effectively. Instead of being a revenue generator for the central government, these became a liability. The sick PSUs added an extra financial burden on the government's budget.

   Thus, because of all the above reasons existing concomitantly, the economic reforms became inevitable.

15. The major factors that led to the growth of service sectors in India are as follows:
    1. ***High demand for services as final product*****:**India was a virgin market for service sector. So, when service sector started booming due to business outsourcing from the developed countries to India, there was very high demand for these services especially for banking, computer service, advertisement and communication. This high demand in turn led to a high growth rate of service sector.
    2. ***Liberalisation and economic reforms*****:** The growth of Indian service sector is also attributable to the liberalisation and various economic reforms that were initiated in 1991. Due to these reforms, various restrictions on the movement of international finance were minimised. This led to huge inflow of foreign capital, foreign direct investments and outsourcing to India. This encouraged the service sector growth.
    3. ***Structural transformation*****:** Indian economy is experiencing structural transformation that implies shift of economic dependence from primary to tertiary sector. Due to this transformation, there was increased demand of services by other sectors which y boosted the service sector.
    4. ***Advanced technology and growth of IT*****:** The advancements and innovations in the IT sector enabled the use of internet, telecommunication, mobile phone and electronic transactions across different countries. All these contributed to the growth of the service sector in India.