NCERT TEXTUAL EXERCISE (SOLVED)

1. Why were reforms introduced in India?

Ans. **1. Huge Fiscal Deficit: A fiscal deficit occurs when the total expenditure of the government exceeds its total revenue**.

Factors that led to huge fiscal deficit were:

(a) Expenditure on development programmes : Development policies required that even though the revenues were very low, the government had to overshoot its revenue to meet challenges like unemployment, poverty and population explosion. The continued spending on development programmes of the government did not generate additional revenue.

(b) Insufficient revenue : The government was not able to generate sufficiently from internal sources such as taxation.

Expenditure was incurred on those programmes like social sector and defence which did not provide sufficient returns.

(c) **Poor performance of PSUs:** Despite the heavy investments made in the PSUs they failed to generate sufficient returns to ensure financial viability. Their poor performance made them a liability.

2. Adverse Balance of Payments (BOP): When the imports of a country are more than its exports, the BOP become adverse as forex is needed to pay for the imports.

Reasons for adverse balance payments:

(a) Slow growth of exports: Though our exports were increasing, this increase was less than the increase in imports.

(b) Gulf crisis: Price of petroleum products became very high due to gulf crisis in 1991. Moreover the Iraq war in 1990-91, resulted in a decline in the remittances (by NRIs) from the gulf countries which further worsened the BOP.

(c) Wasteful Spending of foreign exchange: Foreign exchange borrowed earlier from other countries and financial institution was spent on meeting consumption needs.

3. Rise in Prices: There was a sharp rise in the prices of essential goods leading to an increase in the cost of living as well as the cost of production so that the domestic and foreign demand for our products was adversely affected. The increasing pressure of inflation further worsened the country's economic position (around 16%)

2. How many countries are members of the WTO?

Ans. At present there are 164 countries which are members of WTO.

3. How was RBI controlling the commercial banks?

Ans. Prior to 1991, banking institutions were subject to too much control by the RBI through high bank rate, high cash reserve ratio and statutory liquidity ratio.

In India, financial sector is regulated and controlled by the RBI (Reserve Bank of India).

There was a substantial shift in role of the RBI from 'a regulator' to 'a facilitator' of the financial sector. Earlier as a regulator, the RBI would itself fix interest rate structure for the commercial banks. After liberalisation in 1991, RBI as a facilitator would only facilitate free play of the market forces and leave it to the commercial banks to decide their interest rate structure.

4. What do you understand by devaluation of rupee?

Ans. Devaluation refers to lowering in the official value of a currency with respect to gold or foreign currency by the government and monetory authority. It results in costlier imports and cheaper exports.

5. Distinguish between the following:

(*i*) Strategic and Minority sale

(*ii*) Bilateral and Multi-lateral trade

(*iii*) Tariff and Non-tariff barriers

Ans. (i)

(a) Strategic Sale	***(b) Minority Sale***
1. It involves the sale of minimum 51% stake of a PSU to the private sector.	It involves the sale of maximum 49% stake of a PSU to the private sector.
2. Control and management of PSU is transferred to the private sector.	The control and management of PSU remains with government as it holds the majority stake.
3. PSU's are privatized by auctioning to the highest bidder.	Share of PSU's are sold through public offer.

(*ii*) ***Bilateral :*** Trade agreements involving more than two countries are referred to as multilateral trade agreements.

Multi-lateral trade :Trade agreements involving two countries are referred to as bilateral trade agreements.

(*iii*) ***Tariff Barriers.*** Tariff barriers are imposed on imports to make them relatively costly as a measure to protect domestic production.

Non-Tariff Barriers. They are imposed on the amount of imports and exports.

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

Ans. No, if profit making PSUs are privatised then there will be only loss making PSUs left. Government needs the profit of the profit making PSUs to modernise them, to make them more competitive and more efficient.

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

Ans. Outsourcing is good for India because it provides employment to large number of unemployed Indians. Developed countries oppose it because:

(a) it causes unemployment in their countries.

(b) It would narrow down the income disparity between the two countries.

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

Ans. (a) **Growth of Information Technology:** Due to growth of fast modes of communication many of the services such as voice-based business processes (popularly known as 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.

(b) **Digitisation:** With the help of modern telecommunication links including the Internet, the text, voice and visual data in respect of these services is digitised and transmitted in real time over continents and national boundaries.

(c) **Low Wage Rate:** Wage rates in India are relatively much lower as compared to the developed world. 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.

(d) **Skilled Manpower:** Large number of young and educated people fluent in English is gradually transforming India as an important 'back office' destination for the global outsourcing of customer services and technical support.

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

Ans. The government has decided to give special treatment to some of the important profit making PSUs and they were given the status of navratnas.

These navratnas were granted financial and operational autonomy in the working of the companies.

The granting of navratna status resulted in better performance of these companies. The government partly privatised these companies through disinvestment.

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

Ans. There has been high growth of the service sector in India. There is too much demand' for services because:

(a) It is more profitable to contract services from developing countries.

(b) There is easy availability of skilled manpower at lower wage rate.

The service sector continued to witness a high level of growth — higher than the overall GDP growth in 2014–15, this sector witnessed the highest ever growth rate of 10.3 per cent. The industrial sector witnessed a steep decline during 2012–13, it began to show a continuous positive growth.

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

Ans. **Agricultural crisis.**

(*i*) **More Emphasis to Industries:** Due to LPG, focus shifted from agriculture to industry.

(*ii*) **Fall in Public Investment:** Public investment in agriculture sector especially in infrastructure which includes irrigation, power, roads, market linkages and research was reduced in the reform period.

(*iii*) **Removal of Fertiliser Subsidy:** Subsidies in agriculture were reduced which led to increase in cost of production. Farmers, therefore, found it difficult to compete in global markets.

(*iv*) **Policy Changes:** Reduction in import duties on agricultural products, removal of minimum support price and lifting of quantitative restrictions on agricultural products have adversely affected Indian farmers as they now have to face increased international competition.

(*v*) **Export-oriented Production:** There has been a shift from production for the domestic market towards production for the export market focusing on cash crops in lieu of production of food grains. This puts pressure on prices of food grains.

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12. Why has the industrial sector performed poorly in the reform period?

Ans. The post-reform period shows that industrial growth has slowed down. This was due to:

(*i*) **Lack of Infrastructure:** There was inadequate investment in infrastructural facilities such as power supply.

(*ii*) **Decrease in demand of domestic products:** Globalisation led to decrease in demand for domestic industrial products due to cheaper imports. In a globalised world, developing countries are compelled to open up their economies to greater flow of goods and capital from developed countries and rendering their industries vulnerable to imported goods.

(*iii*) **Hampering growth of local industries:** Globalisation is, thus, often seen as creating conditions for the free movement of goods and services from foreign countries that adversely affect the local industries and employment opportunities in developing countries.

(*iv*) **Inaccessibility of foreign markets:** A developing country like India still does not have the access to developed countries' markets because of high non-tariff barriers. For example, although all quota restrictions on exports of textiles and clothing have been removed in India, USA has not removed their quota restriction on import of textiles from India and China.

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

Ans. Economic reforms have been criticised on the following grounds:

(a) Privatisation encourages growth of monopoly power in the hands of big business houses. It results in greater inequalities of income and wealth.

(b) Globalisation has devastated local producers since they are unable to compete with cheap imports.

(c) Economic reforms have led to mounting workers unrest. Workers have protested against low wages, poor working conditions, autocratic management rule, long work days and fall in social benefits.

(d) Small business class is adversely affected by fall of public subsidies, de-industrialisation and floods of cheap imports.

(e) Due to reduction in taxes, government receipts became inadequate to meet welfare expenditures.