Questions for NCERT Economics Solutions Class 11 Chapter 3

1. Why were reforms introduced in India?

Reforms were introduced in the year 1991 due to the following reasons:

1. To manage the economic crisis that the country was going through

2. Fiscal deficit was going through a worst phase during that period and that resulted in increased public debt.

3. India was going through a weak Balance of Payments (BOP) scenario with the fall of erstwhile Soviet Union and Gulf War and it led to borrowing from International market. This led to the formation of new economic policy to attain a balanced economy.

4. PSU's were established with the aim of providing employment and remove poverty. But the PSU's turned out to be loss making units which burdened already weak economy of the country.

5. High level of fiscal deficit lead to RBI increasing the inflation rate which made goods more costly and led to the starting of a movement from within.

2. Why is it necessary to become a member of WTO?

Becoming a member of WTO (World Trade Organisation) is important in many ways as mentioned below:

1. Being a member of WTO, a member country gets equal rights like other member countries to trade in international market.

2. It provides scope to produce more at a large scale so that it can cater to the needy people across boundaries.

3. WTO will work towards abolishing tariff barrier in order to encourage healthy competition among producers of different countries

4. Member countries of WTO which have a similar economic status can raise voice to safeguard common interests.

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

RBI's role prior to liberalisation was to control and regulate the financial sector which comprises of financial institutions such as commercial banks, stock exchange, investment banking, foreign exchange or forex as it is called now. With the liberalisation and reforms undertaken for finance sector RBI assumed the role of a facilitator in order to allow financial institutions to make their own decision. This led to the entry of foreign players. The main objective of financial reforms was to obtain foreign investment and participation from private sector, to increase competitiveness in finance sector.

4. How is RBI controlling the commercial banks?

RBI is the authority who determines the various ratios like SLR (Statutory Liquid Ratio), Repo Rate, Cash Reserve Ratio (CRR), Reverse Repo Rate and Prime Lending Rate (PLR). It determines the rate of interest for home loans and other loans for banking sectors and all commercial banks have to follow the same. RBI acts as the Central Bank of India and controls money supply for the economy.

5. What do you understand by devaluation of rupee?

Devaluation is reduction in the value of the currency in comparison to a foreign currency under Fixed Rate System. Devaluation is done by the government in order to encourage more exports and reduce imports. After devaluation the value of rupee is reduced with respect to the foreign currency and more amount of goods can be purchased using one unit of that foreign currency.

6. Distinguish between the following

(i) Strategic and Minority sale

(ii) Bilateral and Multi-lateral trade

(iii) Tariff and Non-tariff barriers.

(i)	Strategic Sale	Minority Sale
a)	It refers to the sale of stake of a PSU amounting to 51% to a private sector bidder with the highest bid.	It refers to the sale of stake of a PSU which can be less than or equal to 49% to a private sector bidder.
b)	Change in ownership handed over to the major stakeholder	Ownership stays with the government due to virtue of holding 51% or more of the stake.

(ii)	Bilateral Trade	Multilateral Trade
a)	Exchange of goods between two nations promoting trade	It is a trade agreement between three or more nations
b)	It provides equal opportunities to both the participating nation	Provides equal opportunity to all the members of the trade agreement

(iii)	Tariff Barriers	Non-tariff Barriers
a)	It refers to the tax that is imposed by the country in order to offer protection to the existing industries.	Refers to barriers which are government policies and practices that restrict foreign trade.
b)	Tariff barriers raise the price of product but have a limited effect on demand	It is more effective in raising demand

7. Why are tariffs imposed?

Tariffs are imposed with the purpose of raising the price of goods from imports which discourages further imports. This provides scope to domestic products for earning market share and help them survive. Any such item that is thought to be unnecessary coupled with high cost of import will be a burden on forex reserves.

8. What is the meaning of quantitative restrictions?

It refers to clearly defined limits and quotas on the physical commodities that can be exported or imported during a specific time period. Limits can be made on a selective basis based on varying limits of goods as per country or destination. Quantitative restrictions have a greater protective effect as compared to tariff measures and results in distorting free trade. When quantitative restrictions are used by a trading partner export cannot be done beyond the quota that is set.

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

A profit earning PSU is that which is generating revenue for the government while a PSU is regarded as loss making if the same PSU is inefficient and puts undue burden on the government. Such loss making entities should be privatized and can lead to more efficient business. Core areas of business such as Railways, Water should not be privatized as it is created for the welfare of the people as it will impact in the welfare of the people. Instead of privatising profit making PSUs, they can be granted a greater degree of autonomy in their operating activities which will increase efficiency and productivity and make them more competitive with private counterparts.

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

Yes it is good for India. These points below further help in justifying that:

1. For a country like India which is developing, employment generation is a concern and outsourcing provides a solution for generating employment opportunities.

2. It enables the transfer of knowledge about the processes and technology from developed countries to the developing countries.

3. By providing outsourcing services India makes itself credible in international market, it will help in bringing international investment to India.

4. Outsourcing opens up avenues across service sectors and helps the educated youth in getting skills which will result in human capital formation

5. Jobs will help in building of society by reducing poverty and also pave way for education, which will build the nation as a whole.

Developed countries oppose outsourcing as it leads to outflow of jobs from the developed countries to the developing countries, it leads to outflow of investment and revenue and helps develop the weaker country, but results in job scarcity for the developed countries.

11. India has certain advantages which make it a favourite outsourcing destination. What are these advantages?

The following points will highlight the reasons that make India a favourite outsourcing destination:

1. Wage rates in India is less as compared to other developed nations and it makes MNC's invest in Indian workers and shift a part of business to India.

2. Indians are educated and can be easily trained, but lack job opportunities, so job training cost will be low.

3. India is an emerging market for goods and services, the cost of production is cut by half if it is produced in India, and therefore it makes sense to invest in India.

4. India offers a stable political environment suitable for setting up businesses.

5. India has been developing the infrastructure section since the last 10-20 years and connectivity has become much improved, this helped MNC's in reducing cost of production.

6. India has abundant natural resources which makes for a steady source of raw materials to ensure proper functioning of MNC's.

7. India does not have companies that can provide competition on a global basis. Hence, it easier for MNC's to establish themselves as market leaders.

12. Do you think the *navaratna* policy of the government helps in improving the performance of public sector undertakings in India? How?

Navaratna status is given to those PSE or PSU (Public Sector Enterprises or Public Sector Undertaking) in 1997 that have been profitable in the market and have a comparative advantage. These organisations were given freedom in financial, operational and managerial autonomy. The result of this move was that the company expanded its footprints in global market and became financially and operationally self-sufficient. Awarding them with navaratna status helped them improve their performance.

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

Factors that helped in growth of service sector are as follows:

1. India being a major outsourcing market for services had high demand for banking, customer support, finance, software service, advertisement and communication which led to the growth of service sector.

2. India had undergone financial reforms in the year 1991 which expanded its economy by inflow of foreign investment which led to the growth of service industry.

3. Indian economy had undergone a structural change which shifted its focus from primary to tertiary sector which opened up avenues for growth of services across segments.

4. By following a policy of low tariff and non-tariff barriers for products. India was able to gather a large part of service sector from developed countries.

5. India provides a market for cheap and knowledgeable labour and this factor has helped in many developed nations in setting up subsidiaries in India to carry on their operations.

6. The growth of IT sector and innovations in technology field has made India a favourite destination for investors and industries alike.

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

Economic reforms initiated in 1991 did not have an impact on agriculture industry. Here are the reasons:

1. Public investment decreased in agriculture sector after 1991, Indian government has reduced support for research and development in agriculture and supported services that had a negative impact on agriculture.

2. As subsidies were removed from fertilisers, the cost of production escalated which made farming more expensive, it also affected poor farmers.

3. By complying with WTO regulations, import duties on agricultural products were reduced which made it difficult for poor farmers to compete against products of international market.

4. Shifting focus on producing more cash crops and removal of subsidies exerted a double impact which resulted in inflation making cost of production more expensive

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

Industrial sector performance was poor due to the following reasons:

1. A reduced industrial output was observed due to cheaper imports. Imports were cheaper as import tariffs were removed. This led to reduced demand of domestic goods.

2. There was a lack of investment in infrastructure facilities due to which domestic firms were unable to compete with the developed counterparts from foreign countries in terms of cost and quality. Inadequate infrastructure raised cost of production and made the goods non-feasible in market due to high price.

3. Non-tariff barrier maintained by many developed countries made Indian products less accessible in those countries which led to overall decline in revenue.

4. Domestic industries did not develop in terms of technology and hence were unable to compete with industries of developed nations. Traditional technologies were not at all cost effective or had good quality which was reason for poor growth.

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

Economic reforms enabled India to be an able competitor in the international market. Here are other positive points that happened as a result of the reforms:

1. Movement of goods and services across the globe.

2. Inflow of foreign capital led to more investor interest

3. Boom in service sector boosted Eco tourism

4. GDP increased multiple times

5. Employment opportunities

Negative points

1. No benefits for agriculture industry

2. Reforms benefitted the high income group and made life tougher for low and middle class

3. Development of areas nearby metropolitan cities made rural areas underdeveloped.

Thus it can be said that economic reforms did not provide social justice and was unable to work for welfare of general public.