Unit 3

I. Fill in the blanks. (Each question carries one mark)

1) Reforms were Introduced during **1990-1991**
2) RBI regulates **Banking** Sector
3) WTO was founded in **Jan 1st 1995**
4) Taxes on incomes of individuals is called **Direct tax**

II. Answer the following question in a word /sentence each. (Each question carries one mark)

1) What is Liberalization?

Liberalisation was introduced to put an end to these restrictions and open up various sectors of the economy

2) Give the meaning of Privatization?

It implies shedding of the ownership or management of a government owned enterprise.

3) What is Globalization?

Globalisation is generally understood to mean integration of the economy of the country with the world economy.

4) Expand I.B.R.D.

International Bank for Reconstruction and Development (IBRD)

5) Expand GATT.

General Agreement of Trade and Tariffs

6) Give the meaning of Direct Tax

Direct taxes consist of taxes on incomes of individuals as well as profits of business enterprises

7) What do you mean by Out Sourcing?

In outsourcing, a company hires regular service from external sources, mostly from other countries, which was previously provided internally or from within the country (like legal advice, computer service, advertisement, security — each provided by respective departments of the company).

8) Who regulates the financial Sector?

RBI (Reserve Bank of India)

III. Answer the following question in four sentences each. (Each question carries two marks)

1) Give the meaning of Industrial Licensing.

In India, regulatory mechanisms were enforced in various ways

(i) Industrial licensing under which every entrepreneur had to get permission from government officials to start a firm, close a firm or to decide the amount of goods that could be produced
(ii) Private sector was not allowed in many industries
(iii) Some goods could be produced only in small scale industries and
(iv) Controls on price fixation and distribution of selected industrial products.

2) Mention four Objectives of Trade Policy.

The trade policy reforms aimed at

(i) Dismantling ofquantitative restrictions on imports and exports
(ii) Reduction of tariff rates and
(iii) Removal of licensing procedures for imports. Import licensing was abolished except in case of hazardous and environmentally sensitive industries.

3) What is Fiscal Policy?

Tax reforms are concerned with the reforms in government's taxation and public expenditure policies which are collectively known as its fiscal policy. There are two types of taxes: direct and indirect.

4) What are the Services of out Sourcing?

As a form of economic activity, outsourcing has intensified, in recent times, because of the growth of fast modes of communication, particularly the growth of Information Technology (IT). 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.

5) What do you mean by Disinvestment?

Privatisation of the public-sector undertakings by selling off part of the equity of PSUs to the public is known as disinvestment. The purpose of the sale, according to the government, was mainly to improve financial discipline and facilitate modernisation.

IV. Answer the following question in twelve sentences each. (Each question carries four marks)

1. Briefly explain the back ground of Economic Reforms in India.

The origin of the financial crisis can be traced from the inefficient management of the Indian economy in the 1980s. We know that for implementing various policies and its general administration, the government generates funds from various sources such as taxation, running of public sector enterprises etc.

When expenditure is more than income, the government borrows to finance the deficit from banks and from people within the country and from international financial institutions. When we import goods like petroleum, we pay in dollars which we earn from our exports.

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

2. Write a note on WTO..

The WTO was founded in 1995 as the successor organisation to the General Agreement on Trade and Tariff (GATT). GATT was established in 1948 with 23 countries as the global trade organisation to administer all multilateral trade agreements by providing equal opportunities to all 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.

The WTO agreements cover trade in goods as well as services to facilitate international trade (bilateral and multilateral) through removal of tariff as well as non-tariff barriers and providing greater market access to all member countries.

3. Write a note on Trade and Investment policy reforms.

Liberalisation of trade and investment regime was initiated to increase international competitiveness of industrial production and also foreign investments and technology into the economy. The aim was also to promote the efficiency of the local industries and the adoption of modern technologies.

To protect domestic industries, India was following a regime of quantitative restrictions on imports. This was encouraged through tight control over imports and by keeping the tariffs very high. These policies reduced efficiency and competitiveness which led to slow growth of the manufacturing sector. The trade policy reforms aimed at

(i) Dismantling of quantitative restrictions on imports and exports
(ii) Reduction of tariff rates and
(iii) Removal of licensing procedures for imports.

Import licensing was abolished except in case of hazardous and environmentally sensitive industries. Quantitative restrictions on imports of manufactured consumer goods and agricultural products were also fully removed from April 2001.

Export duties have been removed to increase the competitive position of Indian goods in the international markets.

4. Briefly explain the financial sector reforms.

Financial sector includes financial institutions such as commercial banks, investment banks, stock exchange operations and foreign exchange market. The financial sector in India is controlled by the Reserve Bank of India (RBI). You may be aware that all the banks and other financial institutions in India are controlled through various norms and regulations of the RBI.

The RBI decides the amount of money that the banks can keep with themselves, fixes interest rates, nature of lending to various sectors etc. One of the major aims of financial sector reforms is to reduce the role of RBI from regulator to facilitator of financial sector. This means that the financial sector may be allowed to take decisions on many matters without consulting the RBI.

5. Write a short note on outsourcing.

This is one of the important outcomes of the globalisation process. In outsourcing, a company hires regular service from external sources, mostly from other countries, which was previously provided internally or from within the country (like legal advice, computer service, advertisement, security — each provided by respective departments of the company).

As a form of economic activity, outsourcing has intensified, in recent times, because of the growth of fast modes of communication, particularly the growth of Information Technology (IT). 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

V. Answer the following question in twenty sentences each. (Each question carries four marks)

1. Briefly explain the important areas of Liberalization.

Liberalisation was introduced to put an end to these restrictions and open up various sectors of the economy. Though a few liberalisation measures were introduced in 1980s in areas of industrial licensing, export-import policy, technology upgradation, fiscal policy and foreign investment, reform policies initiated in 1991 were more comprehensive.

Deregulation of Industrial Sector: In India, regulatory mechanisms were enforced in various ways

(i) Industrial licensing under which every entrepreneur had to get permission from government officials to start a firm, close a firm or to decide the amount of goods that could be produced
(ii) Private sector was not allowed in many industries
(iii) Some goods could be produced only in small scale industries and
(iv) Controls on price fixation and distribution of selected industrial products.

Financial Sector Reforms: Financial sector includes financial institutions such as commercial banks, investment banks, stock exchange operations and foreign exchange market. The financial sector in India is controlled by the Reserve Bank of India (RBI). You may be aware that all the banks and other financial institutions in India are controlled through various norms and regulations of the RBI.

Tax Reforms: Tax reforms are concerned with the reforms in government's taxation and public expenditure policies which are collectively known as its fiscal policy. There are two types of taxes: direct and indirect. Direct taxes consist of taxes on incomes of individuals as well as profits of business enterprises.

Foreign Exchange Reforms: The first important reform in the external sector was made in the foreign exchange market. In 1991, as an immediate measure to resolve the balance of payments crisis, the rupee was devalued against foreign currencies.

Trade and Investment Policy Reforms: Liberalisation of trade and investment regime was initiated to increase international competitiveness of industrial production and foreign investments and technology into the economy.

2. Briefly explain the effects of reforms on Agricultural sector.

It implies shedding of the ownership or management of a government owned enterprise. Government companies can be converted into private companies in two ways

(i) By withdrawal of the government from ownership and management of public sector companies and or
(ii) By outright sale of public sector companies. Privatisation of the public-sector undertakings by selling off part of the equity of PSUs to the public is known as disinvestment. The purpose of the sale, according to the government, was mainly to improve financial discipline and facilitate modernisation. It was also envisaged that private capital and managerial capabilities could be effectively utilised to improve the performance of the PSUs.

The government has also made attempts to improve the efficiency of PSUs by giving them autonomy in taking managerial decisions. For instance, some PSUs have been granted special status as navaratnas and mini ratnas