

# CLASS NOTES

Class: XII

Topic: LIBERALISATION:  
ECONOMIC REFORMS UNDER LIBERALISATION.  
CASE STUDY BASED QUESTIONS

Subject: ECONOMICS: INDIAN ECONOMIC DEV.

## Case study

Read the following case study carefully and answer the questions 1-10 Industrial licensing, which was earlier applicable for all industries except a defined list, was the basis of the same: now abolished for all but a handful of industries. This meant investment in new plants and capacity expansion in existing plants could now be undertaken for a very wide range of industries without any approval from the central government. Since the location of industries was previously specified in the license, the abolition of industrial licenses meant that location was left to investors to decide, setting the stage for different states to compete with each other to attract private investment. Earlier, the Monopolies and Restrictive Trade Practices (MRTP) Act provided that all investments by companies with total assets exceeding 1 billion needed special scrutiny to ensure that it would not increase concentration of economic power. These restrictions were abolished and the MRTP Act was to be used to check anticompetitive behaviour, Foreign Direct Investment (FDI) was earlier allowed only in a defined list of high priority industries and each application needed to be cleared on a case-by-case basis, with foreign equity limited to 40%. FDI was now freely allowed up to 50 or 51% in this list and higher limits were considered on the merits of each case. The government also announced that it would seek foreign investment pro-actively in areas where it could make a major contribution

-Montek S. Ahluwalia, India's Economic Reforms:  
Achievements and Next Steps Asian Economic Policy Review, 2018

Choose the correct option:

1. Which of the following is not a reason for controls being imposed by the government?

- (a) To control private monopolies
- (b) Provision of public goods
- (c) Social equity
- (d) To promote crowding out

2. Industrial sector reforms under NEP 1991 does not include which of the following?

- (a) Abolition of industrial licensing
- (b) Reservation of production areas
- (c) Contraction of public sector
- (d) Expansion of production capacity

3. Under the new industrial policy, number of industries reserved for public sector was reduced from:

- (a) 10 to 8
- (b) 18 to 8
- (c) 17 to 8
- (d) 18 to 7

4. After liberalisation, foreign investment limit in banks was raised to around-----per cent

(a) 73

b) 75

c) 74

(d) 76

5. Read the following statements-Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

Assertion (A): India is emerging as an important outsourcing destination of the world.

Reason (R): India offers an abundant supply of labour at a low wage rate.

Alternatives:

(a) Both Assertion (A) Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

(c) Assertion (A) is true but Reason (R) is false

(d) Assertion (A) is false but Reason (R) is true

6. Read the following statements-Assertion (A) and Reason (R). Choose one of the correct alternatives given below

Assertion (A): NEP has encouraged disinvestment by the government.

Reason (R): Owing to NEP, monetary policy of the government has come under a severe stress.

Alternatives:

(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

(c) Assertion (A) is true but Reason (R) is false

(d) Assertion (A) is false but Reason (R) is true

Why there was a need for economic reforms in India?

(a) Due to fiscal deficit

(b) Due to adverse BOP

(c) Rise in prices

(d) All of the above

