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Globalisation & the Indian Economy

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Important Terms

- **Consumer:** An individual who buys products or services for personal use and not for manufacture or resale.
- **Export Quotas:** It means the fixing of the maximum quantity of a commodity that can be exported during a year.
- **Globalisation:** It means integrating or interconnecting the economy of a country with the economies of other countries under conditions of free flow of trade, services, technology, capital and movement of people across international borders.

or

Globalisation describes a process by which national and regional economies, societies, and cultures have become integrated through the global network of trade, communication, immigration and transportation.

- **Import Quotas:** It means fixing of the maximum quantity of a commodity that can be imported during a year.
- **Planning Commission:** The Planning Commission was an institution in the Government of India, which formulated India's Five-Year Plans, among other functions.
- **Multinational Corporation (MNC):** An enterprise operating in several countries, but managed from one (home) country. Generally, any company or group that derives a quarter of its revenue from operations outside of its home country is considered a multinational corporation.
- **MRTPA:** MRTPA stands for Monopolies and Restrictive Trade Practices Act. It was an Act following the recommendations of Monopoly Inquiry Committee and was passed in 1970.
- **Liberalisation of Economy:** It means to free it from direct or physical controls imposed by the government.
- **Special Economic Zones (SEZs):** It is an area in which business and trade laws are different from the rest of the country. These are located within a country's national borders, and their aims include increased trade, increased investment, job creation and effective administration.
- **Tariff :** A tax or duty to be paid on a particular class of imports or exports.



- **Labour Law :** It is the body of laws, administrative rulings, and precedents which address the legal rights of, and restrictions on, working people and their organisations. It is also called employment law.
- **World Trade Organization (WTO):** It is the only global international organisation dealing with the rules of trade between nations.
- **World Bank:** World Bank is an international financial institution that extends financial assistance to their member countries for development purposes.



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Multiple Choice Questions

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Q1. What is the integration between countries through foreign trade and foreign investments by multinational corporations (MNCs)?

- A. International trade
- B. Globalization
- C. International investment
- D. World trade

Q2. have been a major force in the globalization process connecting distant regions of the world?

- A. Traders
- B. International companies
- C. Multinational corporations
- D. Businesses houses

Q3. What are the key ideas behind understanding the process of globalisation and its impact?

- A. Integration of production
- B. Integration of gross profits
- C. Integration of markets
- D. A & C

Q4. Which factors has globalization been facilitated by?

- A. Rapid improvements in technology
- B. Liberalisation of trade and investment policies
- C. Pressures from international organisations
- D. All

Q5. What is a multinational corporation-MNC?

- A. A corporation that does international trade
- B. Manufactures goods for other countries
- C. A company that owns or controls production in more than one nation
- D. None of the above

Q6. MNCs set up offices and factories for production in regions where they can get.....?

- A. Cheap labour and other resources.
- B. Good market for profits
- C. They can make great sales



D. More industry

Q7. MNCs generally manufacture goods and market them.....

- A. From one location in a single country
- B. From different locations in a single
- C. From different locations in different countries
- D. All

Q8. The money that is spent to buy assets such as land, building, machines and other equipment by MNCs is called.....?

- A. Investment
- B. Foreign Investment
- C. Domestic investment
- D. International investment

Q9. What advantage do the local companies have by setting up joint production with MNCs?

- A. More profit
- B. More resources
- C. Latest technology for better production
- D. Foreign exchange

Q10. The most common route for MNC investments is to buy up

- A. Local resources
- B. Local technology
- C. Excess land for factories
- D. Local companies

Q11. In which other way do the MNCs control production?

- A. By land of local country
- B. Send the latest technology from parent country
- C. place orders for production with small producers, which then sell these under their own brand name
- D. Send the brand name to the company they buy

Q12. Ford Motors came to India in 1995, by 2017, Ford Motors was selling cars in the Indian markets?

- A. 88000



- B. 85000
- C. 87000
- D. 84000

Q13. Which Indian companies have invested abroad?

- A. Coca Cola
- B. Ranbaxy
- C. Nike
- D. Pepsi

Q14. Within a year, of the toy shops had replaced Indian toys with Chinese toys?

- A. 40 to 50%
- B. 50 to 60%
- C. 70 to 80%
- D. 80 to 90%

Q15. Globalisation, by connecting countries, shall result in?

- A. lesser competition among producers.
- B. greater competition among producers.
- C. no change in competition among producers.
- D. None of the above

Q16. What has been one major factor that has stimulated the globalisation process?

- A. Availability of cheap labour in developing countries
- B. Availability of unexploited resources in developing countries
- C. Some countries are good in the landscape for natural resources
- D. Rapid improvement in technology

Q17. Goods are placed in that can be loaded intact onto ships, railways, planes and trucks?

- A. Vessels
- B. Containers
- C. Receptacles
- D. Tanks



Q18. What is used to contact one another around the world, to access information instantly, and to communicate from remote areas?

- A. Mail and telephone
- B. Information technology
- C. Telecommunication.
- D. B & C

Q19. Suppose the Indian government puts a tax on the import of toys from China, what would happen?

- A. Toys will get cheaper, more purchase by a consumer
- B. No effect
- C. Toys will get expensive, less purchase by a consumer
- D. Toys will get expensive, more purchase by a consumer

Q20. Governments use to increase or decrease (regulate) foreign trade and to decide what kinds of goods and how much of each, should come into the country?

- A. Tax levies
- B. Increased taxes
- C. Relaxation of taxes
- D. trade barrier

ANSWER

- | | | | | |
|-------------|-------------|--------------|--------------|--------------|
| 1. B | 5. C | 9. C | 13. B | 17. B |
| 2. C | 6. A | 10. D | 14. C | 18. D |
| 3. D | 7. C | 11. C | 15. B | 19. C |
| 4. D | 8. B | 12. A | 16. D | 20. D |



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1. Explain the role of government to make globalization fair

Answer: The government can play a major role in making fair globalization possible. Fair globalization would create opportunities for all, and also ensure that the benefits of globalization are shared better. Government policies must protect the interests not only of the rich and the powerful, but also of all the people in the country.

- Government should ensure that labour laws are implemented and workers' rights are protected.
- Government should support small producers to improve their performance till the time they become strong enough to compete with foreign competition.
- If necessary, government should use trade and investment barriers.
- It can negotiate with WTO for fairer rules.
- It can also align with other developing countries with similar interests to fight against the domination of developed countries in the WTO.

2. Explain any three advantages of globalization.

Answer: Globalization means integrating the economy of the country with the world economy. Under this process, goods and services along with capital, resources and technology can move freely from one nation to another.

- It has increased the movement of people between countries. People usually move from one country to another in search of better income, better jobs or better education. Earlier the movement of people between countries was less due to various restrictions.
- Rapid improvement in technology has been one major factor that has stimulated the globalization process. For instance, advancement in transportation technology has made much faster delivery of goods across long distances possible at lower costs. Container services have led to huge reduction in port handling costs. The cost of air transport has fallen which has enabled much greater volumes of goods being transported by airlines.
- Developments in information and communication technology (IT in short) has brought a revolution in telecommunications. It has made e-banking, e-commerce, e-learning, e-mail and e-governance a reality.
- Globalization has resulted in greater competition among producers and has been of advantage to consumers, particularly the well-off section. Rich people now enjoy improved quality and lower prices for several products.

3. How has foreign trade been integrating markets of different countries in the world? Explain with examples.



Or

" Foreign trade integrates the markets in different countries." Support the statement with arguments.

Answer: Foreign trade been integrating markets as:

- Foreign trade creates opportunities for producers to reach beyond domestic markets. Producers can compete in markets located in other countries of the world. Similarly, for the buyers, import of goods from another country leads to expanding choice of goods beyond what is domestically produced. Buyers can thus choose from a wide range of products to suit their individual tastes.
- With the opening of trade, goods travel from one market to another. Choice of goods in the market rises. Prices of similar goods in two markets tend to become equal, and producers in the two countries now closely compete against each other even though they are separated by thousands of miles. Foreign trade, thus, results in connecting the markets or integration of markets in different countries.

For example., There are endless number of footwear brands available in the Indian market. A consumer who is aware of international trends can choose between a local brand like Bata, Lakhani and international brands like Adidas, Nike, Reebok etc.

4. How do Multi-National corporations (MNCs) interlink production across countries? Explain with examples.

Answer:MNCs set up production in various countries based on the following factors:

- MNCs set up offices and factories for production in regions where they can get cheap labour and other resources; eg., in countries like China, Bangladesh and India. These countries also provide with the advantage of cheap manufacturing locations.
- At times, MNCs set up production jointly with some of the local companies of countries around the world. The benefit of such joint production to the local company is two-fold. First, the MNCs can provide money for additional investments for faster production. Secondly, the MNCs bring with them the latest technology for enhancing and improving production.
- Some MNCs are so big that their wealth exceeds the entire budgets of some developing countries. This is the reason why they buy up local companies to expand production. eg. Cargill Foods, a very large American MNC has bought over smaller Indian companies such as Farakh Foods.
- There is another way in which MNCs control production and that is by placing orders for production with small producers in developing nations; eg., garments, footwear, sports items etc. The products are supplied to these MNCs which then sell these under their own brand name to customers. MNCs also enter into close competition with local companies thereby influencing production in distant locations.



5. What is an MNC? Give two examples of Indian companies that have emerged as MNCs. What are the harmful effects of MNCs to a host country? Give three examples. (2012 OD)

Answer: A Multi-National Corporation (MNC) is a company that owns or controls production in more than one nation. The goods and services are produced globally. The production process is divided into small parts and spread out across the globe.

Tata Motors (automobiles), Infosys (IT), Ranbaxy (medicines), Asian Paints (paints), Sundaram Fasteners (nuts and bolts), etc. are some of the Indian companies which are spreading their operations worldwide as MNCs.

Harmful effects of MNCs to a host country:

- Small producers compete or perish. MNCs have posed major challenges for a large number of small producers and workers. The small manufacturers have been hit hard due to competition. Several of the units have shut down rendering many workers jobless. Batteries, taps, tyres, dairy-products, vegetable oil are some of the industries that are badly affected due to stiff competition from MNCs.
- Uncertain employment. In order to maximize the profit MNCs look for a location with minimum labour costs. Faced with competition, most employers these days prefer to employ workers on temporary basis so that they do not have to pay workers for the whole year. This has changed the lives of workers and their jobs are no longer secure.
- The Condition of employment. Workers also have to put in very long working hours and work night shifts on a regular basis during the peak season. Wages are low and workers are forced to work overtime to make both ends meet. The workers are denied their fair share of benefits and no longer get the protection that they enjoyed earlier, for example, the Indian garment export industry often deny their workers their fair share of benefits.

6. How has improvement in technology stimulated the globalization process? Explain with five examples.

Answer: Improvements in technology have helped in globalization in the following ways: Rapid improvement in technology has contributed greatly towards globalization. Advanced technology in transport systems has helped in the delivery of goods faster across long distances at lower costs.

- Development in information and communication technology has also helped a great deal. Telecommunication facilities—telegraph, telephone (including mobile phones), fax are now used to contact one another quickly around the world, access information



instantly and communicate from remote areas. Teleconferences help in saving frequent long trips across the globe.

- Information technology has also played an important role in spreading out production of services across countries. Orders are placed through internet, designing is done on computers, even payment for designing and printing can be arranged through internet. Internet also allows us to send instant electronic mail (e-mail) and talk (face-to-face) across the world at negligible cost.
- The cost of air transport has fallen which has enabled much greater volumes of goods being transported by airlines.
- Technology has made e-banking, e-commerce, e-learning, e-mail and e-governance a reality.

7. Describe the impact of globalisation on Indian economy with examples.

Or, " Globalisation and greater competition among producers has been of advantage to consumers." Justify the statement with examples.

Answer: Impact of Globalisation on the Indian Economy:

- Greater competition among producers (both local and foreign), has been advantageous to consumers, particularly the well-off section. There is greater choice before the consumers who now enjoy improved quality and lower prices for several products.
- Globalisation has led to a higher standard of living especially in urban areas.
- MNCs have increased their investments in India in industries such as electronics, automobiles, cellphones, soft drinks, fast food, banking services etc. thereby providing consumers with a vast variety of products. New job opportunities have been created in these industries and services, thereby increasing purchasing power.
- Globalisation has enabled some large Indian companies to emerge as MNCs themselves like Tata Motors, Infosys, Ranbaxy, Asian Paints, etc.
- Globalisation has also created new opportunities for companies providing services particularly those involving IT (Information Technology)- For example, call centres.
- Top Indian companies have benefitted from the increased competition. They have invested in newer technology and production methods indirectly benefitting the consumers.
- Local companies supply raw materials to foreign industries and have prospered.

However, for a large number of producers and workers the impact has not been uniform, and globalisation has posed major challenges.

8. How are MNCs spreading their products? Explain with examples.



Or, How are multinational corporations (MNCs) controlling and spreading their production across the world? Explain.

Answer: MNCs set up production in various countries based on the following factors:

- MNCs set up offices and factories for production in regions where they can get cheap labour and other resources; e.g., in countries like China, Bangladesh and India. These countries also provide with the advantage of cheap manufacturing locations.
- At times, MNCs set up production jointly with some of the local companies of countries around the world. Such joint production also provides benefits to the local company.
- MNCs with huge amounts of wealth sometimes buy up local companies to expand production, e.g., Cargill Foods, a very large American MNC has bought over smaller Indian companies such as Parakh Foods.
- There is another way in which MNCs control production and that is by placing orders for production with small producers in developing nations; e.g., garments, footwear, sports items etc. The products are supplied to these MNCs which then sell these under their own brand name to customers. MNCs also enter into close competition with local companies thereby influencing production in distant locations.

9. "Technology has stimulated the globalisation process." Support the statement with examples.

Answer: Technology has stimulated the process of globalisation in the following ways:

- Transportation technology has witnessed several improvements in past fifty years. This has made much faster delivery of goods across long distances possible at lower costs, such as use of containers have led to huge reduction in port handling costs and increased the speed with which exports can reach markets. Also, the cost of air transport has fallen. Ultimately, it has stimulated the globalisation process.
- Telecommunication has also shown remarkable development. Computers, internet, e-mail, voice-mail, etc. are used intensively to contact one another around the world.
- There has been a remarkable development in information and communication technology. It has enabled to access information instantly and communicate even in the remotest areas. Call centres use this to satisfy their customers abroad or provide outsourcing services from anywhere.

10. How has globalisation benefited India? Explain with five examples.

Answer: The impact of globalisation on India are:

- It has enabled some large Indian companies to emerge as MNCs such as Tata Motors, Infosys.



- It has also created new opportunities for companies providing services like information technology.
- Greater competition among producers has been of special advantage particularly to the well-off sections of consumers in the urban areas. They have greater choice and enjoy improved quality and lower prices for various products. Thus, they are enjoying a higher standard of living.
- In these industries and services, new jobs have been created and also the companies supplying raw materials to these industries have prospered.
- Several of the top Indian companies have been able to benefit from the increased competition. They have invested in new technology and production methods and raised the standard of their products. Some of them have gained from successful collaboration with foreign companies.

11. How is the Government of India trying to attract more foreign investment? Explain with examples.

Answer: The government of India is trying to attract more foreign investment in the following ways:

- Government has adopted the policy of liberalisation and lifted the trade barriers to allow foreign investment.
- In recent years, industrial zones called Special Economic Zones are being set up. These areas have world class facilities such as electricity, water, transport, education and recreational.
- The companies setting up production units in Special Economic Zones are exempted from various taxes and duties.
- The government also allowed flexibility in labour laws. The workers in the organised sector are protected by the government laws. The companies in Special Economic Zones instead could ignore many of the laws and engage workers flexibly for shorter periods, when there is a pressure of work.

12. How has globalisation been advantageous to both the producers as well as the consumers in India? Explain.

Answer: Advantages of globalisation for consumers:

- They have greater choice.
- Better quality of products are available for consumption due to competition.
- It has reduced the cost of goods and services considerably.

Advantages of globalisation to producers:

- They now have access to international markets for their products.



- They have easier access to foreign investment to enhance their production,
- Collaboration with MNCs have added up their performance and profits.

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Case-Based Questions

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QUESTION 1. Read the extract given below and answer the questions that follow:

Ford Motors, an American company, is one of the world's largest automobile manufacturers with production spread over 26 countries of the world. Ford Motors came to India in 1995 and spent Rs. 1700 crore to set up a large plant near Chennai. This was done in collaboration with Mahindra and Mahindra, a major Indian manufacturer of jeeps and trucks. By the year 2004, Ford Motors was selling 27,000 cars in the Indian markets, while 24,000 cars were exported from India to South Africa, Mexico and Brazil. The company wants to develop Ford India as a component supplying base for its other plants across the globe.

ANSWER THE FOLLOWING QUESTIONS

Question 1: Would you say Ford Motors is a MNC? Why?

Question 2: What is foreign investment? How much did Ford Motors invest in India?

Question 3: By setting up their production plants in India, MNCs such as Ford Motors tap the advantage not only of the large markets that countries such as India provide, but also the lower costs of production. Explain the statement.

Question 4: Why do you think the company wants to develop India as a base for manufacturing car components for its global operations? Discuss the following factors

(a) Cost of labour and other resources in India

(b) The presence of several local manufacturers who supply autoparts to Ford Motors

(c) Closeness to a large number of buyers in India and China

ANSWER KEY

- 1) Ford Motors has production facilities spread over 26 countries of the world. Hence, it can be termed an MNC.
- 2) The investment which comes from abroad is called foreign investment. Ford Motors had invested Rs. 1700 crore.
- 3) The cost of labour is cheaper in India; compared to the developed countries. This means that an MNC can save lot of money on wages and salaries by setting up production plants in India. This helps in lowering the cost of production, India itself is a large market with sizeable population of middle class and upper class and hence provides a big market for many products lowering the cost of production. India itself is a



large market with sizeable population of middle class and upper class and hence provides a big market for many products.

- 4) a) Wages and salaries are much lower in India compared to in developed countries. Moreover, raw materials and power is also cheaper. This is a definite advantage which India offers as a production base.
- b) There are many companies which manufacture various auto-parts; like Sundaram Fasteners. Because of their lower cost of operation, these companies supply various parts at less price than price in the developed countries
- c) India and China together comprise about 30% of the world population and thus they provide a huge market for various companies. Making a production base in India provides easy access to these two markets.

QUESTION 2. Read the following passage carefully and answer the following questions:

Having assured themselves of these conditions, MNCs set up factories and offices for production. The money that is spent to buy assets such as land, building machines and other equipment is called investment. Investment made by MNCs is called foreign investment. Any investment is made with the hope that these assets will earn profits. At times, MNCs set up production jointly with some of the local companies of these countries. The benefit to the local company of such joint production is twofold. First, MNCs can provide money for additional investments, like buying new machines for faster production. Second, MNCs might bring with them the latest technology for production

Question.1. What do you understand by foreign investment?

- (a) Investment made by local companies is called foreign investment.
- (b) Investment made by humans is called foreign investment
- (c) Investment made by MNCs is called foreign investment.
- (d) Investment made by government is called foreign investment.

Question.2. What is the meaning of investment?

- (a) The money that is spent to buy plants, trees and other equipment is called investment.
- (b) The money that is spent to buy assets such as land, building, machines and other equipment is called investment.
- (c) The money that is spent to buy animals, birds and other equipment is called investment.
- (d) The money that is spent to buy assets such as plants and other equipment is called investment.



Question.3. Mention any one benefit of the local company which sets up joint production with an MNC.

- (a) MNCs might bring with them the latest plants which would be beneficial for the local companies.
- (b) MNCs might bring with them the latest technology for production which would be beneficial for the local companies.
- (c) MNCs do not compete with the local companies.
- (d) MNCs give loans to the local companies

Question.4. What is set up by MNCs for production?

- (a) MNCs set up factories and offices for production.
- (b) MNCs set up houses and restaurants
- (c) MNCs set up houses and orphanages
- (d) MNCs set up orphanages and restaurants.

Answer key:

- 1. c
- 2. b
- 3. b
- 4. a



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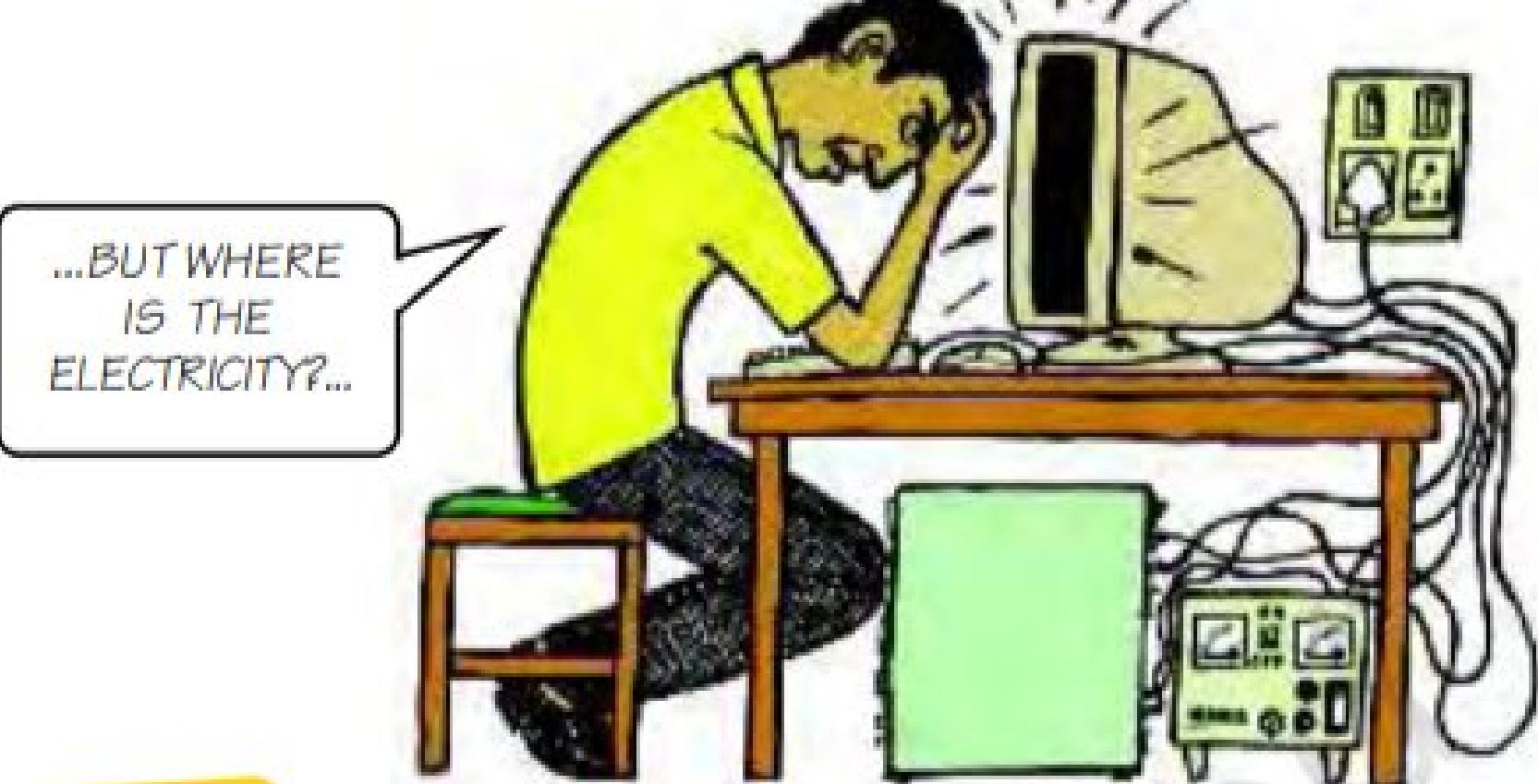
Diagram Based Questions

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QUESTION 1



What does this picture shows?

Answer: Factors that have enabled globalisation

Rapid improvement in technology has been a major factor that has stimulated the globalization process. Technologies in the areas of telecommunications, computers, and internet have been changing rapidly.

QUESTION 2



what does this picture shows?

Answer: The Struggle for a fair Globalisation

People with education skill and wealth have, made the best use of new opportunities. Fair globalisation would create opportunities for all and also ensure that the benefits of are shared better

QUESTION 3



what does this picture shows?



Answer: Foreign trade and integration of market

Foreign trade creates an opportunity for the producers to reach beyond the domestic markets. For the buyers, import of goods produced in another country is one way of expanding the choice of goods beyond what is domestically produced.

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