Unit VII: Economic Reforms Since 1991

🧠 Solved Textual Questions & Answers

1. What triggered the 1991 economic reforms in India?

→ A balance of payments crisis in 1990–91, dwindling foreign reserves, and macroeconomic instability forced the government to liberalize and reform the economy.

2. Name two key features of Liberalization.

→ Dismantling of industrial licensing and reduction of import tariffs.

3. What is Privatisation?

→ Transfer of public sector enterprises to private ownership or reducing government stake in them.

4. Explain Globalisation in the Indian context.

→ Integration of India with the global economy through removal of trade barriers, capital controls, and fostering foreign investment.

5. Define Foreign Direct Investment (FDI).

→ Long-term investment by foreign entities in domestic enterprises, bringing capital, technology, and management practices.

✍️ Short Answer Questions (2–3 Marks)

1. **How has liberalization impacted Small Scale Industries (SSIs)?**
   → While eased controls opened markets, many SSIs struggled to compete with larger firms and imports.
2. **What is disinvestment?**
   → Selling government shares in public sector companies to private players to reduce public sector dominance.
3. **Mention two measures to promote exports after 1991.**
   → Export promotion schemes (e.g., SEZs), export subsidies, duty drawback facilities.
4. **How did reforms affect foreign investment policy?**
   → Caps on FDI were raised, multi-brand retail, telecom, and manufacturing sectors were opened to foreign investors.
5. **What was the aim of financial sector reform?**
   → Deregulate interest rates, strengthen banking regulation, allow private and foreign banks, improve credit delivery.

📌 Long-Answer Questions (4–6 Marks)

1. **Discuss the major reforms in the industrial sector since 1991.**
   → Abolition of industrial licensing, reduction in Monopoly and Restrictive Trade Practices limits, easier entry of foreign and private firms, and de-regulation of input/output controls.

2. **Explain India's trade policy transformation post-1991.**
   → Gradual reduction of import tariffs, elimination of quantitative controls, conversion to tariff-based regime, and global integration via WTO membership.
3. **Analyze the effects of liberalisation, privatisation, and globalization (LPG) on India's economy.**
   → The LPG approach contributed to accelerated growth, heightened FDI inflows, enhanced exports, modernization of infrastructure, yet also increased inequality and regional divergence.
4. **Evaluate how capital market reforms improved financial inclusion.**
   → Introduction of algorithmic trading (BSE/NSE), improved regulation (SEBI's autonomy), dematerialized shares, and increased public participation via mutual funds and retail investments.
5. **Explain the significance of FDI and its impact on economic growth.**
   → FDI brought capital inflows, technology transfer, enhanced productivity, employment generation, and stronger global trade links.

💡 20 Additional Model Questions & Perfect Answers

🟢 Short Answer (2–3 Marks)

1. **What were SEZs introduced for?**
   → To boost exports via tax incentives, infrastructure, and single-window clearances.

2. **What is the role of WTO in globalization?**
   → Promotes free trade by reducing global trade barriers and enforcing multilateral trade rules.
3. **Explain disinvestment vs privatization.**
   → Disinvestment is share-selling to reduce government ownership; privatization involves full transfer of ownership/control to private sector.
4. **Name two banking sector reforms post-1991.**
   → Entry of private and foreign banks; introduction of prudential norms and capital adequacy standards.
5. **How did reforms affect the public sector?**
   → Resulted in restructuring, closing of sick PSUs, strategic sale, and autonomy-based reforms.
6. **What is the significance of GDP growth post-1991?**
   → Average growth increased from ~3.5% to ~6–7% per year, making India one of the fastest-growing economies.
7. **How did reforms affect unemployment?**
   → Formal sector employment remained slow; however, service sector growth created new job opportunities in IT, telecommunications, and export sectors.
8. **Why were capital controls removed?**
   → To allow free flow of foreign capital for investment and portfolio inflows improving financing.
9. **What challenges did liberalization bring to agriculture?**
   → Farmers faced volatility due to competition, loss of subsidies, and no adequate market reforms initially.

10. **What is global integration?**
→ Joining international trade, finance, and production networks through policy alignment and openness.

🔵 Long Answer (4–6 Marks)

11. **Assess the transformation in India's export composition since 1991.**
→ Shift from primary commodities to technology-intensive goods, pharmaceuticals, software, and services—leading to higher export diversification.

12. **Explain the role of SEZs in attracting investment and employment.**
→ SEZs provided a conducive business environment with fiscal benefits, drawing multinational and domestic companies, generating exports and jobs.

13. **Discuss the social sector implications of LPG reforms.**
→ Health and education investments improved; on the flip side, subsidy cuts and privatization influenced social equity and regional imbalances.

14. **How do capital and financial sector reforms complement economic growth?**
→ Better intermediated savings, improved credit efficiency, modern financial infrastructure, and enhanced mobilization and allocation of resources.

15. **Explain the effect of trade liberalization on Indian consumers.**
→ Consumers benefited from greater variety, lower prices, and improved quality of goods and services.

16. **What was the impact of FDI in telecom and IT sectors?**
→ Revolutionised network infrastructure, connectivity, exports, and created massive employment.

17. **Evaluate public finance reforms since 1991.**
→ Reforms included fiscal consolidation, introduction of fiscal responsibility legislation, GST implementation, and reduction of tax slabs.

18. **Discuss the drawbacks or risks associated with LPG reforms.**
→ Increased inequality, regional disparity, unemployment in traditional industries, and exposure to global volatility.

19. **Explain how privatization impacted PSU efficiency.**
→ Private ownership brought efficiency, accountability, technological upgrades, and better governance in previously loss-making PSUs.

20. **Summarize India's growth model pre- and post-1991.**
→ Pre-1991: inward-oriented, controlled, slow growth. Post-1991: outward-oriented, market-based, high-growth era with more global integration and private sector-led growth.