Question 1. Why were reforms introduced in India?
Answer. In 1991, economic reforms were introduced in India because 1991 was the year of crisis for the Indian economy. It is clear from the following facts:
(a) National income was growing at the rate of 0.8%.
(b) Inflation reached the height of 16.8%.
(c) Balance of payment crisis was to the extent of 10,000 crores.
(a) India was highly indebted country. It was paying 30,000 crores interest charges per year.
(e) Foreign exchanges reserves were only 1.8 billion dollars which were sufficient for three weeks.
(f) India sold large amount of gold to Bank of England.
(g) India applied for the loan from World Bank and IMF to the extent of 7 billion dollars.
(h) Fiscal deficit was more than 7.5%.
(i) Deficit financing was around 3%.
(j) Trade relation with Soviet block had broken down.
(k) Remmittances from non-residence Indians stopped due to war in Arab countries.
(l) Price of petroleum products was very high.

Question 2. How many countries are members of the WTO?
Answer. At present there are 149 countries which are members of WTO.

Question 3. What is the most important function of RBI?
Answer. There was a substantial shift in role of the RBI from 'a regulator' to 'a facilitator' of the financial sector. Earlier as a regulator, the RBI would itself fix interest rate structure for the commercial banks. After liberalisation in 1991, RBI as a facilitator would only facilitate free play of the market forces and leave it to the commercial banks to decide their interest rate structure. Thus, with liberalisation competition prevails rather than controls.

Question 4. How was RBI controlling the commercial banks?
Answer. Prior to 1991, banking institutions were subject to too much control by the RBI through high bank rate, high cash reserve ratio and statutory liquidity ratio.
Financial sector includes:
(a) banking and non-banking financial'institutions,
(b) stock exchange market, and
(c) foreign exchange market.
In India, financial sector is regulated and controlled by the RBI (Reserve Bank of India).
There was a substantial shift in role of the RBI from 'a regulator' to 'a facilitator' of the financial sector. Earlier as a regulator, the RBI would itself fix interest rate structure for the commercial banks. After liberalisation in 1991, RBI as a facilitator would only facilitate free play of the market forces and leave it to the commercial banks to decide their interest rate structure.

Question 5. What do you understand by devaluation of rupee?
Answer. Devaluation refers to lowering in the official value of a currrency with respect to gold or foreign currency. It results in costlier imports and cheaper exports.

Question 6. Distinguish between the following:
(i) Strategic and Minority sale
Answer. Government has been disinvesting by many methods. Two main methods are:
(a) Minority sale. In this method, equity is offered to investors through domestic public issue.
(b) Strategic sale. In this method, government offloads above 51 per cent in strategic sale.
(ii) Bilateral and Multi-lateral trade
Answer. Trade agreements involving more than two countries are referred to as multilateral trade agreements.
Trade agreements involving two countries are referred to as bilateral trade agreements.
(iii) Tariff and Non-tariff barriers
Answer. Tariff Barriers. Tariff barriers are imposed on imports to make them relatively costly as a measure to protect domestic production.
Non-Tariff Barriers. They are imposed on the amount of imports and exports.

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