

ANSWER KEY & MARKING SCHEME · CBSE CLASS 12

Liberalisation, Privatisation and Globalisation: An Appraisal

Indian Economic Development · Chapter 3 · Use this with the Board Paper · Companion to Quick Drill

HOW TO USE

Attempt the Board Paper first (closed-book, full time). Then come here. For 2-mark+ questions, compare your answer to the model. For 3-4 mark questions, also consult the **Topper Templates** below — these show the exact step-by-step structure that scores full marks per CBSE marking-scheme conventions.

MODEL ANSWERS · BOARD PAPER**Section A — VSA (1 mark × 4)****Q1. In which year was the New Economic Policy launched in India? [1 mark]****Ans:** 1991.**Q2. Name the international organisation, founded in 1995, that India joined as a founder member. [1 mark]****Ans:** The World Trade Organisation (WTO), founded on 1 January 1995 (successor to GATT).**Q3. What is meant by disinvestment? [1 mark]****Ans:** The sale of (usually a minority) part of the government's equity holding in a public-sector undertaking to the private sector.**Q4. On what date was the Goods and Services Tax (GST) introduced in India? [1 mark]****Ans:** 1 July 2017.**Section B — SA-I (3 marks × 2)****Q5. Distinguish between liberalisation, privatisation and globalisation. [3 marks]**

Ans: LIBERALISATION is the removal of internal government controls, licensing and restrictions on private business so the economy operates more freely on market principles (e.g. abolition of industrial licensing). PRIVATISATION is the transfer of ownership, management or control of public-sector undertakings to the private sector (e.g. through disinvestment). GLOBALISATION is the integration of the Indian economy with the world economy through the relatively free flow of goods, services, capital and technology across borders (e.g. lower tariffs, FDI, joining the WTO). In short: liberalisation = internal deregulation; privatisation = smaller public sector; globalisation = external integration.

Q6. Explain the meaning of outsourcing and state why India has become a favoured outsourcing destination. [3 marks]

Ans: OUTSOURCING is a feature of globalisation in which a company hires regular services — such as call-centre/BPO work, software development, banking back-office processing, legal advice or transcription — from external providers, often located in other countries. In the globalisation context, work FLOWS INTO India from developed economies. India has become a favoured destination because of (1) a large pool of LOW-COST labour, (2) a skilled, ENGLISH-SPEAKING workforce, and (3) rapidly improving IT and telecommunications infrastructure. These advantages let firms in developed countries cut costs while accessing quality services.

Q7. Why did India face an economic crisis in 1991? Explain the circumstances that led to the New Economic Policy. (6 marks) [6 marks]

Ans: By 1991 India was in a severe BALANCE OF PAYMENTS crisis. CAUSES: (1) CHRONIC FISCAL DEFICITS — government spending on subsidies, defence and loss-making PSUs far exceeded revenue, so the government borrowed heavily, including from the RBI, which printed money and pushed inflation to about 17%. (2) INEFFICIENT PUBLIC SECTOR + LICENCE-RAJ — many PSUs ran losses and over-regulation choked private enterprise, so the economy could not earn enough foreign exchange through exports. (3) GULF WAR (1990-91) — the external trigger: global oil prices spiked, raising India's import bill, while remittances from Indian workers in the Gulf fell. (4) COLLAPSE OF FOREX RESERVES — reserves fell to about US\$1 billion, enough for barely TWO WEEKS of imports, and India could not service its external debt; its credit rating fell, drying up further borrowing. RESPONSE: India pledged gold to the Bank of England/Bank of Japan and secured a loan of about US\$7 billion from the IMF and World Bank, accepting CONDITIONALITIES to liberalise, privatise and open up. CONCLUSION: This crisis was the immediate cause of the NEW ECONOMIC POLICY 1991, built on the three pillars of Liberalisation, Privatisation and Globalisation (LPG) — a decisive shift from a closed, planned economy to a market-oriented, globally integrated one.

Q8. Explain the measures taken under liberalisation as a part of the New Economic Policy. (6 marks) [6 marks]

Ans: LIBERALISATION means removing government controls and restrictions on private business. The 1991 reforms liberalised FIVE areas: (1) INDUSTRIAL-SECTOR REFORMS — industrial licensing was abolished for almost all products (a short list like alcohol, defence equipment and hazardous chemicals retained licensing); industries reserved for the public sector were cut from 17 to a few (e.g. atomic energy, railways); and many price controls were removed. (2) FINANCIAL-SECTOR REFORMS — the RBI shifted from regulator to FACILITATOR; private Indian and foreign banks were allowed; Foreign Institutional Investors (FIIs) were permitted to invest in Indian markets; and SEBI was empowered to regulate capital markets. (3) TAX REFORMS — direct-tax rates (income and corporation tax) were reduced to improve compliance, and indirect taxes were simplified. (4) FOREIGN-EXCHANGE REFORMS — the rupee was DEVALUED in 1991 and the country moved toward a market-determined exchange rate. (5) TRADE & INVESTMENT-POLICY REFORMS — quantitative import restrictions were removed, tariffs were cut, export duties were abolished, and limits on foreign investment were relaxed. Together these measures replaced the licence-permit raj with competition and efficiency.

Q9. Critically appraise the impact of the LPG reforms on the Indian economy, with reference to agriculture and industry. (6 marks) [6 marks]

Ans: The LPG reforms transformed India from a slow-growing, closed economy into one of the world's fastest-growing economies, but the gains were UNEVEN. POSITIVE IMPACTS: (1) GDP growth accelerated and the SERVICES sector (IT, software, telecom, finance, BPO) boomed, making India a global services hub. (2) The BoP crisis was permanently resolved — foreign-exchange reserves rose sharply. (3) Foreign investment (FDI + FII) surged, inflation moderated, and competition improved consumer choice and product quality. CRITICISMS: (1) AGRICULTURE was NEGLECTED — public investment in irrigation and rural infrastructure fell, input subsidies were reduced, and lower import duties exposed farmers to cheap, often subsidised, imports and to volatile world prices, so agricultural growth lagged. (2) INDUSTRY grew slowly and unevenly — small-scale producers faced competition from cheap imports and poor infrastructure held back expansion. (3) Growth was 'JOBLESS' — output rose faster than employment because services and capital-intensive industry created few jobs for the less-skilled workforce, and inequality widened. CONCLUSION: The reforms were a NECESSARY and largely successful response to the 1991 crisis that revived growth and global integration — but because their benefits did not reach agriculture or generate adequate employment, the appraisal must remain a QUALIFIED success.

★ **TOPPER TEMPLATE — 6-mark: 'Why did India face an economic crisis in 1991? / Explain the circumstances that led to the New Economic Policy.'**

Annual

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| Step 1 [1 mark] | Introduction + thesis | By 1991 India was in a severe economic crisis — essentially a BALANCE OF PAYMENTS crisis combined with very high fiscal deficits and inflation. Foreign-exchange reserves had collapsed to a level that could finance barely two weeks of imports, forcing India to adopt the New Economic Policy of 1991. |
| Step 2 [2 marks] | Domestic causes (fiscal + PSU inefficiency) | (1) CHRONIC FISCAL DEFICITS : government expenditure (subsidies, defence, loss-making PSUs) far exceeded revenue, so the government borrowed heavily — including from the RBI, which printed money, pushing inflation to about 17%. (2) INEFFICIENT PUBLIC SECTOR : many PSUs ran losses, and the licence-permit raj choked private enterprise — so the economy could not generate the exports needed to earn foreign exchange. |
| Step 3 [1 mark] | External trigger (Gulf War + reserves) | (3) GULF WAR (1990-91) : global crude-oil prices spiked, sharply raising India's import bill, while remittances from Indian workers in the Gulf fell. (4) FALLING FOREX RESERVES : reserves dropped to about US\$1 billion (two weeks of imports); India could not service its external debt and the credit rating fell, drying up further borrowing. |
| Step 4 [1 mark] | Response — IMF/ World Bank loan + conditionalities | India pledged gold to the Bank of England and the Bank of Japan and secured a loan of about US\$7 billion from the IMF and World Bank. In return India accepted CONDITIONALITIES — to LIBERALISE and DEREGULATE the economy, PRIVATISE/ reform PSUs, and reduce trade barriers (open up / GLOBALISE). |
| Step 5 [1 mark] | Conclusion — NEP 1991 | The crisis was the immediate cause of the NEW ECONOMIC POLICY (1991) , built on the three pillars of LIBERALISATION, PRIVATISATION and GLOBALISATION (LPG) , marking a decisive shift from a closed, planned economy to a market-oriented, globally integrated one. |

COMMON LOSS OF MARKS:

- Listing causes without explaining the **MECHANISM** (e.g. 'fiscal deficit → RBI borrowing → inflation').
- Forgetting the specific figures — US\$1 billion reserves / 2 weeks of imports / ~US\$7 billion IMF loan.
- Not naming the Gulf War as the external trigger.
- Failing to connect the crisis to the NEP/LPG response in the conclusion.

★ **TOPPER TEMPLATE — 6-mark: 'Explain the measures taken under liberalisation.'**

Annual

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| Step 1 [1 mark] | Definition | LIBERALISATION means removing the government-imposed controls and restrictions on private business so that the economy operates more freely on market principles. The 1991 reforms liberalised five major areas. |
| Step 2 [1 mark] | Industrial-sector reforms | (1) INDUSTRIAL-SECTOR REFORMS : industrial LICENSING was abolished for almost all products (only a few like alcohol, defence equipment, hazardous chemicals retained licensing); the list of industries reserved for the public sector was cut from 17 to just a few (e.g. atomic energy, railways); and price controls on many goods were removed. |
| Step 3 [1 mark] | Financial-sector reforms | (2) FINANCIAL-SECTOR REFORMS : the RBI shifted from a regulator to a FACILITATOR ; private Indian and foreign banks were allowed; Foreign Institutional Investors (FIIs) were permitted to invest in Indian markets; and the Securities and Exchange Board of India (SEBI) was empowered to regulate capital markets. |
| Step 4 [1 mark] | Tax + forex reforms | (3) TAX REFORMS : direct-tax rates (income and corporation tax) were reduced to improve compliance, and the indirect-tax structure was simplified (later culminating in GST). (4) FOREIGN-EXCHANGE REFORMS : the rupee was DEVALUED in 1991 and the country moved toward a MARKET-DETERMINED exchange rate, freeing the forex market from rigid government control. |
| Step 5 [1 mark] | Trade + investment reforms + conclusion | (5) TRADE & INVESTMENT-POLICY REFORMS : quantitative import restrictions were dismantled, tariff (import-duty) rates were cut sharply, export duties were removed, and limits on foreign investment were relaxed. Together these measures opened the Indian economy to competition and efficiency. |

COMMON LOSS OF MARKS:

- Mixing up liberalisation reforms with privatisation/globalisation measures.
- Naming only one or two reform heads instead of all five.
- Not naming SEBI / FIIs in financial reforms.
- Forgetting that licensing was retained for a **SHORT** list of industries (not abolished entirely).

★ TOPPER TEMPLATE — 6-mark: 'Critically appraise the LPG reforms / assess their impact on agriculture and industry.'

2019, 2022, 2024

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| Step 1 [1 mark] | Introduction + balanced thesis | The LPG reforms transformed India from a slow-growing, closed economy into one of the world's fastest-growing economies — but the gains were UNEVEN across sectors, so a fair appraisal must weigh both achievements and failures. |
| Step 2 [2 marks] | Positive impacts | POSITIVES: (1) GDP growth accelerated and the SERVICES sector (IT, telecom, finance, BPO) boomed, making India a global services hub. (2) Foreign-exchange reserves rose dramatically and the BoP crisis was permanently resolved. (3) Inflation moderated, foreign investment (FDI + FII) surged, and consumer choice and product quality improved through competition. |
| Step 3 [2 marks] | Negative impacts / criticisms | CRITICISMS: (1) AGRICULTURE was NEGLECTED — public investment in irrigation and infrastructure fell, subsidies were reduced, and farmers were exposed to volatile global prices. (2) INDUSTRY grew slowly and unevenly, hurt by cheap imports and inadequate infrastructure. (3) Growth was 'JOBLESS' — output rose faster than employment. (4) Reforms widened inequality and the reform of disinvestment proceeds was often used to cover deficits rather than fund development. |
| Step 4 [1 mark] | Conclusion | On balance, the LPG reforms were a NECESSARY and largely successful response to the 1991 crisis that revived growth and global integration — but their failure to spread benefits to agriculture and to generate adequate employment means the appraisal must remain a QUALIFIED success. |

COMMON LOSS OF MARKS:

- Giving a one-sided answer (only praise OR only criticism) — 'critically appraise' demands both.
- Not naming the SECTOR that benefited (services) vs the one neglected (agriculture).
- Missing the 'jobless growth' point.
- No concluding judgement.

MARKING SCHEME — GENERAL NOTES

- Specific facts (figures, dates, names) carry marks — vague answers lose half-marks each. Reward US\$1 billion / 2 weeks of imports / ~US\$7 billion IMF loan / WTO 1995 / GST 1 July 2017.
- 'Critically appraise' = balance positives and negatives with a judgement. One-sided answers cap at 4/6.
- Distinguish-type questions (liberalisation vs privatisation vs globalisation; privatisation vs disinvestment; FDI vs FII) need the precise contrast, not generic definitions.
- Use exact terms: New Economic Policy, balance of payments, fiscal deficit, disinvestment, navratnas, conditionalities.