

ITL PUBLIC SCHOOL

CLASS XII ECONOMICS

CHP2 INDIAN ECONOMY (1950-1990)

Q1. Define a plan.

ANS: A plan specifies how resources of a nation should be put to use. It should have some general and specific goals as well as objectives which are to be achieved within a specific period of time.

Q2. Why did India opt for planning?

ANS: The Colonial government left India in a backward and stagnant situation. It was required to solve nation's problems in a sovereign Indian republic through a system of federal parliamentary democracy. Planning was opted to sustain political independence and generate economic prosperity by using our resources efficiently and economically.

Q3. Why should plans have goals?

ANS: Plans should have some goals (general and specific) to be achieved in a specific period of time. They help in overall growth of all sectors of the economy.

Q4. What are HYV seeds?

ANS: The high yielding varieties of seeds are Miracle seeds. When combined with assured water supply, fertilizer, insecticides etc., they result in increasing the production levels of food grains.

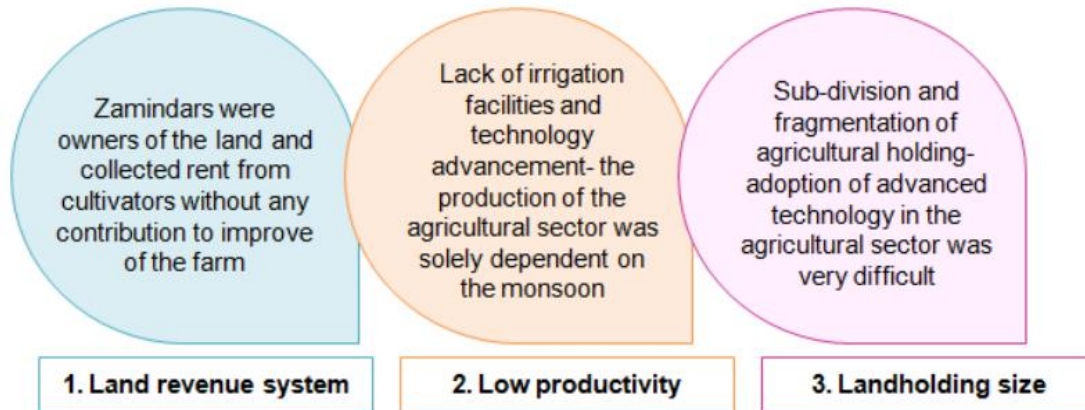
Q5. What is marketable surplus?

ANS: It is that part of agriculture produce which is sold in the market by the farmer to make profit. It is that part which is sold after meeting the consumption requirements of the farmers.

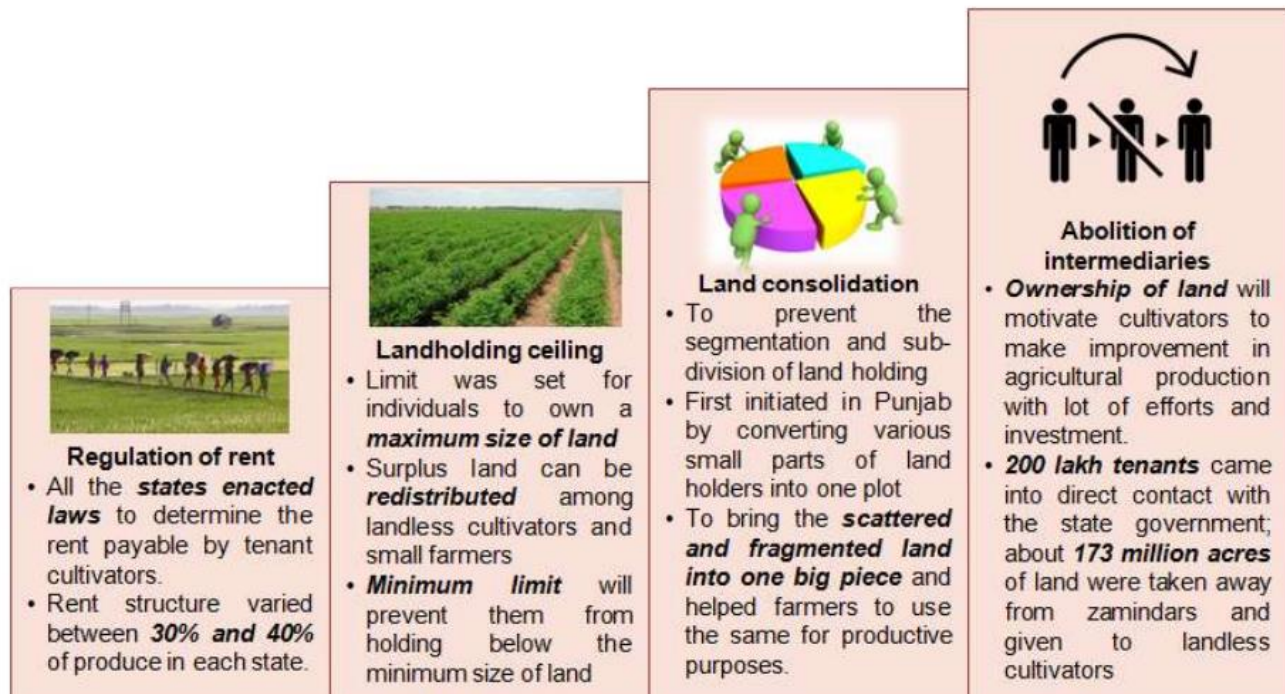
Q6. Explain the need and types of land reforms implemented in the agriculture sector.

ANS: The policy makers of independent India dealt with issues related to 'no growth and no equity' during colonial rule. They introduced land reforms and promoted the use of high-yielding variety (HYV) seeds in agriculture.

Need for land reforms



TYPES OF LAND REFORMS



Q7. What is Green Revolution? Why it was implemented and how did it benefit the farmers?

ANS: Green Revolution

It refers to sustained increase in the production of food grains. This revolution was made possible by using HYV seeds, fertilizers, pesticides and irrigation facilities.

It was implemented because:

- At the time of independence, a large chunk of farmers were dependent on the monsoon because of which they faced innumerable problems in farming activities. Technology and machinery used in farming were obsolete which resulted in low agricultural productivity.
- Famines affected agricultural productivity in the 1940s. Indian agriculture suffered from low productivity of food grains as more emphasis was given to cash crops during the colonial rule. This resulted in the shortage of food grains in India.
- Landlords and lenders exploited farmers because they were dependent on landlords and rural money lenders to meet their credit requirements. Stagnation in agriculture was broken by the Green Revolution.

Benefit to the farmers:

- It enabled India to achieve self sufficiency in the foodgrains. and we no longer had to be at the mercy of America or any other nation for meeting our nation's food requirements.
- Attaining marketable surplus: Green Revolution resulted in marketable surplus. it refers to that part of agricultural produce which is sold in the market by the farmers after meeting their own consumption requirement.

Benefit to the country:

- Buffer stock of grains: The green revolution enabled to procure sufficient amount of foodgrains to build a stock which could be used in time of food shortage.
- Benefit to low income groups: A large proportion of foodgrains was sold by the farmers in the market, their prices declined relative to other items of consumption. The low income groups who spent a larger percentage of their income on food benefited from this decline in relative prices.

Q8. Explain Growth with Equity as a planning objective.

ANS: Growth refers to an increase in the level of national income over a period of time. It implies:

- Either a large stock of productive capital
- or a large size of supporting services like transportation and banking
- or increase in the efficiency of productive capital and services.

A good indicator of economic growth is steady increase in Gross Domestic Product . Increase in GDP or availability of goods and services enables people to enjoy a more rich and varied life.

According to Equity, every Indian should be able to meet his or her basic needs and inequality in the distribution of wealth should be reduced. Equity aims to raise the standard of living of all people.

So growth with equity helps to achieve planning objective of development with social justice.

Q9. Does Modernisation as a planning objective create contradiction in the light of employment generation?

ANS: No Modernisation as a planning objective does not contradict employment generation . Modernisation refers to the use of modern technology in the production process that may make some people lose their jobs in the initial stages but gradually the use of modern technology and input will raise the productivity and consequently the income of the people that will further fuel the demand for goods and services. In order to fulfill the increased demand, there will be ,more job opportunities that will lead more people to be hired and hence employment opportunities will be generated.

Q10. Why was it necessary for a developing country like India to follow self reliance as a planning objective?

ANS: It was necessary in order to

- Reduce our dependence on foreign countries especially for food as we were recently freed from foreign domination.
- Also dependence on imported food supplies, foreign technology and foreign capital make Indi's sovereignty vulnerable to foreign interference in our policies.

Q11. What is sectoral composition of our economy? Is it necessary that the service sector should contribute maximum to GDP of an economy? Comment.

ANS: Contribution of agriculture, industrial and service sector to the GDP of the country is known as sectoral composition.

Yes it is necessary that in the later stages of development service sector should contribute more to the GDP. This phenomenon is known as structural transformation. This implies that gradually the country's dependence on the agriculture sector will shift from the maximum to the minimum and at the same time the share of industrial and service sector should increase.

Q12. Why was public sector given a leading role in industrial development during the planning period?

ANS: Public sector was given a leading role because:

1. **Lack of capital:** Private entrepreneurs *lacked capital for setting up industries as a large amount was required*. Thus, the government took the responsibility of developing industries in the economy.
2. **Lack of incentive:** The Indian market was comparatively small which *discouraged Indian industrialists to invest in major projects (even though they had sufficient capital to invest)*. Thus, the government promoted the industrial sector.
3. **Development of India on socialist base:** Indian planners wanted to *develop the Indian economy on a socialist base, so they focused on government-funded* major projects.
4. **Social welfare:** In India, there were certain projects in which the profit margin was negligible. Thus, the private sector was not interested in such projects and it was only the *public sector which could bring the balanced regional growth with the establishment of government units in the backward areas*. This move could increase the employment and income of the people.

Q13. Explain the statement that Green Revolution enabled the government to procure sufficient food grains to build its stocks that could be used during the time of shortage.

ANS: Green Revolution led to increase in the production of food grain. The Green Revolution was made possible with the use of modern technology, extensive use of fertilizers, pesticides and HYV seed. The abolition of intermediaries and easy availability of credit also helped. The government can procure sufficient food grains to build buffer stock to provide cushion against the shocks of famines and shortages.

Q14. While subsidies encourage farmers to use new technology, they are a huge burden on government finance. Discuss the usefulness of the subsidies in the light of this fact.

ANS: Subsidy means providing inputs to farmers at a concessional rate that is lower than its market rate. during 1960's in order to adopt new technology HYV seeds and use of modern fertilizers and insecticides , farmers were provided inputs at a subsidized rate.

Usefulness of subsidies	Against subsidies
Subsidies help in <i>encouraging farmers</i> to use new and innovative technology.	Once technology is widely accepted, the government should stop providing goods at subsidised rates.
In India, more than 50% of the farmers are poor and cannot afford new technology in their farming activity. So, the government can help them by providing subsidies.	Subsidies are provided to benefit farmers, but it has been observed that the fertiliser industry has benefited others more than farmers.
Abolishment of subsidy will violate the goal of equity because it raises differences between poor and rich farmers in India.	Also, farmers from prosperous regions benefited from subsidies more than farmers from poor regions.
Application of new technology in farming will increase the total output of agricultural products in developing nations.	The fertiliser subsidy should not be continued as it failed to serve the target group.

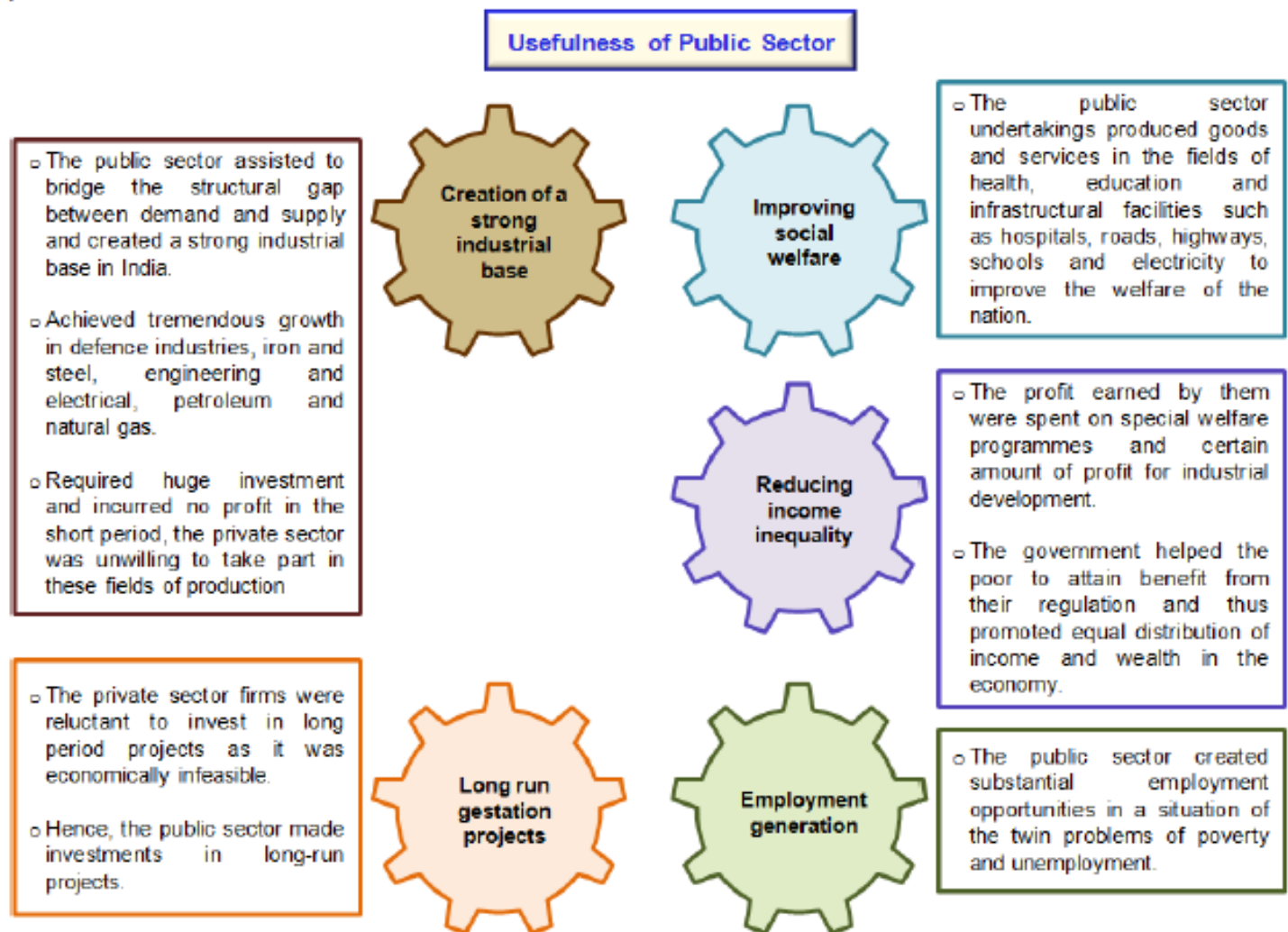
As a subsidy government provided loans at low interest rates to small farmers and subsidized fertilizers so that small farmers could have access to the needed inputs.

However, subsidies help farmers to cope with advanced technology and higher productivity. Government planning is required to target farmers who need financial assistance and avoid the wastage of resources which increase the burden of the government.

Q15. Why despite the implementation of Green Revolution, 65 per cent of our population continued to be engaged in the agriculture sector till 1990.

ANS. This is because Industrial and service sectors were unable to absorb the extra people involved in agriculture.

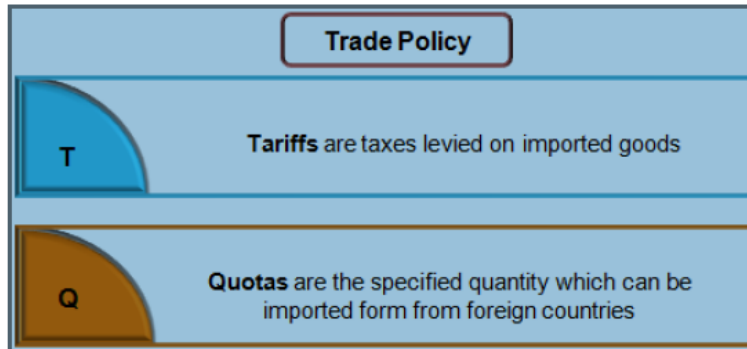
Q16. Though public sector is very essential for industries, many public sector undertakings incur huge losses and are a drain on the economy's resources. Discuss the usefulness of public sector undertakings in the light of this fact.



Q17. Explain how import substitution can protect domestic industries?

Trade policy: Import substitution

- Import substitution is considered an *inward looking trade policy*.
- It aimed to **discourage the imports** of goods and services which can be produced domestically.
- The strategy of import substitution was not only to protect domestic producers from foreign competitors but also to **decrease the dependency on foreign goods and services**.
- In the policy of import substitution, domestic producers were protected by **imposing tariffs and quotas on imported goods**.



Thus, domestic firms were protected from foreign competition with the *import substitution policy*.

Q18. Why and How was private sector regulated under the IPR 1956?

Industrial Policy Resolution (IPR), 1956

The Industrial Policy Resolution (IPR), 1956, emphasised on the *expansion of the public sector, development of heavy and machine building industries, ownership and control of the private sector and establishing the cooperative sector*.

IPR 1956 classified industries into 3 categories:



The private sector was regulated under IPR 1956 **to promote industrialisation in backward regions for reducing regional inequality**. The following steps were taken:

- They have to **obtain a licence to make an entry in the economy**.
- Strict licencing policy was introduced to establish industry in urban areas, whereas **easier licencing** was provided to establish **new industries in backward regions**.
- Promoting industrialisation in backward regions was the main motive behind IPR 1956. **Concession in the form of taxation** was given for units which were established in backward regions.
- Obtaining licences to establish a new unit has also been made **mandatory for existing firms**.

Q19. Match the Following

- | | |
|----------------------------|--|
| 1. Prime Minister | A. Seeds that give large proportion of output |
| 2. Gross Domestic Product | B. Quantity of goods that can be imported |
| 3. Quota | C. Chairperson of the planning commission |
| 4. Land Reforms within the | D. the money value of all the final goods and services produced |
| | economy in one year |
| 5. HYV seeds | E. improvement in the field of agriculture to improve its productivity |
| 6. Subsidy activities | F. The monetary assistance given by the government for production |

ANS: 1C 2D 3B 4E 5A 6F

Q20. Explain the features of Capitalist, Socialist and Mixed Economy.



Q22. Write a short note on Small scale industries.

Small-scale industry

A small-scale industry is defined with reference to the **maximum investment allowed on the assets of a unit.**

- ☐ A small-scale unit can **invest a maximum of rupees 5 crore.**
- ☐ Small-scale industries are **labour intensive** and thus **generate more employment.**
- ☐ Small-scale industries cannot compete with large industrial units. Hence, **production of certain**

products is reserved for the small-scale industry.

Q23. What were the effects of the policies on Industrial development from 1950-1990?

Achievements of policies on India's industrial sector:

- Proportion of GDP contributed by the industrial sector increased from **1950–51 to 1990–91**.
- **Annual growth rate of industrial sector was 6%** during the plan period.
- Because of the public sector, the industrial sector became well **diversified by 1990**.
- Promotion of small-scale industries **helped people** who did not have capital to start new business.
- Protection of domestically produced goods from foreign competition enabled the **development of indigenous industries like electronics and automobiles in India**.

Failures

- Permit license Raj prevented certain firms from becoming more efficient as more time was spent by industrialists to obtain a license.
- Due to restriction on imports consumers have to buy what is produced in the market. As producers knew that they had a captive hence there were no incentives to improve the quality of the product.
- There was no distinction made between what public sector alone can do and what private sector can also do.

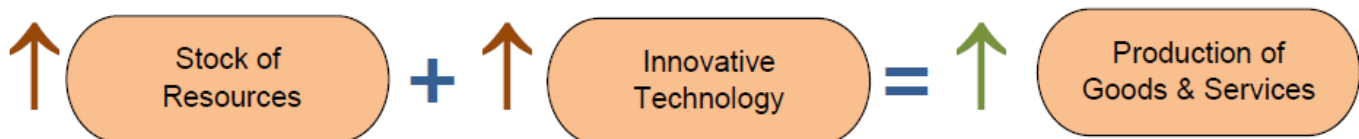
Q24. Explain the long term objectives of planning.

(If asked separately about explaining the objectives you need to answer this)

1. Growth

- Growth refers to **an increase in the level of national income over a period of time**.

Increase in the countries capacity to produce the goods and services within an economy



- **Flow of goods and services** must consistently **increase**, and therefore, the **standard of living of people will increase** over a period of time.
- When an economy grows, **structural transformation** occurs.
- Structural transformation implies **decrease in economy's dependence** on the **agricultural sector**, and the **share of the industrial and service sectors** in the total GDP will **increase** over the years.
- **Growth** in the performance of the **service sector** with higher contribution to the total GDP is an indication of **economic development**.

2. Modernisation

- Modernisation is the **use of advanced technology** in the production of goods and services so that productivity can be increased.
- It does not have any negative impact on employment generation. In fact, **modernisation and employment generation go hand in hand**.
- Hence, **the production of goods will be increased to meet the demand of people resulting in**

generation of employment opportunities in the economy.

- Thus, modernisation as a planning objective does not create contradiction in the light of employment generation.

Self reliance and Equity already explained above