Guess Paper – 2014
Class – XI
Subject –Economics

INDIAN ECONOMY 1950-1990

Q1. Define a plan.
Answer: A plan spells out how the resources of a nation should be put to use. It should have some general goals as well as specific objectives which are to be achieved within a specified period of time.

Q2. Why did India opt for planning?
Answer: At the time of independence the Indian economy was in its worst stage. The GDP, National and Per Capita income was very low and the unemployment was very high. The Industrial growth was insignificant, even the Agricultural Sector was not doing well. The resources were very limited. So the leaders had to make a plan to initiate a process of development which would raise the living standards and open out to the people new opportunities for a richer and more varied life.

Q3. Why should plans have goals?
Answer: Since the resources are limited so one can not each and every objective in one go. One needs to fix some goals and plan to achieve it priority wise in a specific period of time. A plan should have some general goals as well as specific goals which are to be achieved within a specified period of time.

Q4. What are miracle seeds?
Answer: The high yielding variety (HYV) seeds are called the miracle seeds. It increased the production of food grains significantly.

Q5. What is marketable surplus?
Answer: The farmers keep the agricultural produce for their own consumption first and if there is any surplus they sell it in the market. The portion of agricultural produce which is to be sold in the market by the farmers is called the marketable surplus.

Q6. Explain the need and type of land reforms implemented in the agricultural sector.
Answer: At the time of independence, the land tenure system was characterized by intermediaries called zamindars, jagirdars etc. who merely collected rent from the actual tiller of the soil without contributing towards improvements on the farm. This demotivated the actual tiller and the productivity was very low. There was an urgent need of land reform policy. The first policy which was introduced by the government was the policy of 'land to the tiller, which was based on the idea that the cultivators

will take more interest, they will have more incentive in increasing output if they are the owners of the land. This is because ownership of land enables the tiller to make profit from the increased output.
Land ceiling was another policy to promote equity in the agricultural sector. This means fixing the maximum size of land which could be owned by an individual. The purpose of land ceiling was to reduce the concentration of land ownership in a few hands.

Q7. What is Green Revolution? Why was it implemented and how did it benefit the farmers? Explain in brief.
Answer: The term Green Revolution refers to the large increase in production of food grains resulting from the use of high yielding variety (HYV) seeds especially for wheat and rice.
The use of these seeds required the use of fertilizer and pesticide in the correct quantities as well as regular supply of water.
It was implemented because at independence, about 75% of the country's population was dependent on agriculture. But the productivity in the agricultural sector was very low because of the use of old technology and the absence of required infrastructure for the vast majority of farmers. India's agriculture vitally depends on the monsoon and if monsoon fell short the farmers were in trouble unless they had access to irrigation facilities which very few had.
By the use of HYV seeds the productivity of food grains increased remarkably and a good proportion of the rice and wheat produced during the green revolution period (available as marketed surplus) was sold by the farmers in the market.

Q8. Explain 'growth with equity' as a planning objective.
Answer: Only growth of the country can not improve the kind of life which people are living. A country can have high growth; the most modern technology developed in the country itself, and also has most of its people living in poverty. It is important to insure that the benefits of economic prosperity reach the poor sections as well instead of being enjoyed only by the rich. So, in addition to growth, equity is also important: every Indian should be able to meet his or her basic needs such as food, a decent house, education and health care and inequality in the distribution of wealth should be reduced. This should be our planning objective.

Q9. Does modernization as a planning objective create contradiction in the light of employment generation? Explain.
Answer: This is the negative thinking that modernization affects adversely the employment generation process. To clarify this more we need to understand what modernization is. By modernization we mean adoption of new technology to increase the production of goods and services. For example, a farmer can increase the output on the farm by using new seed varieties instead of using the old ones. Similarly, a factory can increase output by using a new type of machine. This does not cut down the employment generation opportunity rather this facilitate the manpower in their works. Only thing we need to train our human resources. The economy needed the human resources and it will need it. The only difference with modernization that now

it needs more skilled labuors than the unskilled one. We need men/women to run the machines.
The other important thing that the modernization does not refer only to the use of new technology but also to changes in social outlook such as the recognition that women should have the same rights as men.
Therefore this is wrong to say that modernization as a planning objective create contradiction in the light of employment generation.

Q10. Why was it necessary for a developing country like India to follow selfreliance as a planning objective?
Answer: It was necessary for a developing country like India to follow self- reliance as a planning objective. When we won our freedom the planners of our country considered it a necessity in order to reduce our dependence on foreign countries, especially for food. Further, it was feared that dependence on imported food supplies, foreign technology and foreign capital may make India's sovereignty vulnerable to foreign interference in our policies.
Therefore the first seven five year plans gave importance to self-reliance which means avoiding imports of those goods which could be produced in India itself.

Q11. What is sectoral composition of an economy? Is it necessary that the service sector should contribute maximum to GDP of an economy? Comment.
Answer: The GDP of a country is derived from the different sector's of the economy, namely the agricultural sector, the industrial sector and the service sector. The contribution made by each of these sectors makes up the structural/sectoral composition of the economy.
Usually, with development, the share of agriculture declines and the share of industry becomes dominant. At higher levels of development, the service sector contributes more to the GDP than the other two sectors. In India, the share of agriculture in the GDP was more than 50%- as we would expect for a poor country. But by 1990 the share of the service sector was 40.59%, more than that of agriculture or industry, like what we find in developed nations. This increased further in the post 1991 period.

Q12. Why was public sector given a leading role in industrial development during the planning period?
Answer: At the time of independence, Indian industrialist did not have the capital to undertake investment to industrial ventures required for the development of our economy; nor was the market big enough to encourage industrialist to undertake major projects even if they had the capital to do so. It is principally for these reasons that the state had to play an extensive role in promoting the industrial sector. In addition, the decision to develop the Indian economy on socialist lines led to the policy of the state controlling the commanding heights of the economy.

Q13. Explain the statement that green revolution enabled the government to procure sufficient food grains to build its stocks that could be used during

times of shortage.
Answer: With the use of High Yielding Variety (HYV) seeds the farmers were able to produce large quantity of food grains which were far more than their self consumable requirements. Those surplus quantities were purchased by the government to maintain the buffer stock to be used at times of food shortage due to natural calamities or due to war. Therefore the green revolution enabled the government to procure sufficient food grains to build its stocks that could be used during times of shortage.

Q14. While subsidies encourage farmers to use new technology, they are a huge burden on government finances. Discuss the usefulness of subsidies in the light of this fact.
Answer: Any new technology will be looked upon as being risky by farmers. Subsidies were, therefore, needed to encourage farmers to test the new technology. Some economists believe that once the technology is found profitable and is widely adopted, subsidies should be phased out since their purpose has been served. Further, subsidies are meant to benefit the farmers but a substantial amount of fertilizer subsidy also benefits the fertilizer industry; and among farmers, the subsidy largely benefits the farmers in the more prosperous regions. Therefore, it is argued that there is no case for continuing with fertilizer subsidies; it does not benefit the target group and it is a huge burden on the government's finances.
On the other hand, some believe that the government should continue with agricultural subsidies because farming in India continues to be a risky business. Most farmers are very poor and they will not be able to afford the required inputs without subsidies. Eliminating subsidies will increase the inequality between rich and poor farmer and violate the goal of equity. These experts argue that if subsidies are largely benefiting the fertilizer industry and big farmers, the correct policy is not abolish subsidies but to take steps to insure that only the poor farmers enjoy the benefits.

Q15. Why despite the implementation of green revolution, 65% of our population continued to be engaged in the agriculture sector till 1990?
Answer: In India, between 1950 and 1990, the proportion GDP contributed by agriculture declined significantly but not the population depending on it (67.5% in 1950 to 64.9% by 1990). The agricultural output could have grown with much less people working in the sector. This is because the industrial sector and the service sector did not absorb the people working in the agricultural sector. Many economists call this an important failure of our policies followed during 1950-1990.

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.
Answer: In spite of the contribution made by the public sector to the growth of the Indian economy, some economists are critical of the performance of many public sector enterprises. Initially public sector was required in a big way. It is now widely

held that state enterprises continued to produce certain goods and services (often monopolizing them) although this was no longer required. The problem is that no distinction was made between (i) what the public sector alone can do and (ii) what the private sector can also do. For example, even now only the pubic sector can supply national defense and even though the private sector can manage hotels well, yet, the government also runs hotels. This has led some scholars to argue that the state should get out of areas which the private sector can manage and the government may concentrate its resources on important services which the private sector cannot provide.
Many public sector firms incurred huge losses but continued to function because it is very difficult, almost impossible, to close a government undertaking even if it is a drain on the nation's limited resources. This does not mean that private firms always profitable (indeed, quite a few of the public sector firms were originally private firms which were on the verge of closure due to losses; they were then nationalized to protect the jobs of the workers). However, a loss-making private firm will not waste resources by being kept running despite the losses.

Q17. Explain how import substitution can protect domestic industry.
Answer: Import substitution is also known as an inward looking trade strategy. This policy aimed at replacing or substituting imports with domestic production. For example, instead of importing vehicles made in a foreign country, industries would be encouraged to produce them in India itself. In this policy the government protected the domestic industries from foreign competition. Protection from imports took two forms: tariffs and quotas. Tariffs are tax on imported goods; they make imported goods more expensive and discourage their use. Quotas specify the quantity of goods which can be imported. The effect of tariffs and quotas is that they restrict imports and, therefore, protect the domestic firms from foreign competition.

Q18. Why and how was private sector regulated under the IPR 1956?
Answer: Under IPR 1956 the private sector was kept under state control through a system of licenses. No new industry was allowed unless a license was obtained from the government. This policy was used for promoting industry in backward regions; it was easier to obtain a license if the industrial unit was established in an economically backward area. In addition, such units were given certain concessions such as tax benefits and electricity at a lower tariff. The purpose of this policy was to promote regional equality.
Even an existing industry had to obtain a license for expanding output or for diversifying production. This was meant to ensure that the quantity of goods produced was not more than what the economy required.

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