Indian economics , Class-12th , Ch-4 , Notes

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

The proportionate contribution of each sector towards the total Gross Domestic Product (GDP) of the country during a year is known as sectoral composition. It comprises of shares from industrial sector, agricultural sector and service sector. Out of all the three sectors, service sector needs to be the one contributing the maximum for GDP at the later stages. A phenomenon called structural transformation implies gradual shift of dependence from agriculture towards increase in industrial and service sector.

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

Public sector was given a leading role due to following reasons:

1. As the development project for a country which has recently gained independence was tough, there was no foreign investment and no fund support, so the government had decided to take the initiative and as the projects were high risk along with long turnaround time, it was the public sector that had to step in to provide the framework of the future industries.

2. Indian economy was at a very nascent stage, the level of income was very less for majority of the people of nation. As a result of that, the demand was less and for such a market no one was willing to invest. Public sector was the only option by which the demands can be raised.

3. 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.

Green revolution helped in substantial increase in food grain production and ended India's reliance of imports from USA for food grains. Importing of HYV seeds from Mexico lead to surplus food crop production and subsequently made India self-sufficient. The farmers also had easy access to credit, were offered subsidies in fertilizer and land reforms that made life much easier for them. These farmers were able to save their surplus production and sell them to Government of India earning profit and also making the government stock enough food grains for an emergency situation like famines, drought etc.

4. 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.

Whenever a new technology is being introduced, people are hesitant at first to try it out. The most common thinking is if someone invests in new technology and it backfires or doesn't give the desired results, it will be loss for the investor. Therefore subsidies were introduced. Economists believe that a technology when found to be profitable should not be subsidised. Subsidies meant for farmers will also benefit the fertilizer industry and it will be benefitting those farmers who are from more prosperous regions. Government bears the burden by providing such subsidies. The proper way to provide subsidy is to determine which farmers are really in need of subsidy through a proper verification system. It will ensure the needy gets the subsidy and the government doesn't have to bear large expenses.

5. Why, despite the implementation of green revolution, 65 per cent of our population continued to be engaged in the agriculture sector till 1990?

Indian agriculture witnessed tremendous growth in crop production which made India self-sufficient in food grain production. Still the number of people engaged in agriculture was not reduced in the 40 years. It was 67.5 % of total population in 1950 and the figure stood at 64.9% in 1990. Growth was hindered as people were not absorbed in the secondary and tertiary sector. Such a large number of people engaged in agriculture would have generated much more productivity, which it didn't. It shows that technological advancement was lacking. Also it showed the short sightedness of the economic policies that were in effect from 1950-1990. The result was that the contribution of agriculture in GDP was reduced to 44% in 1970’s while it was 51% in 1960’s.

6. 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.

Lack of proper planning and mismanagement led to the wastage of resources and also monetary loss in forms of revenue by the PSU’s. Still they are having some benefits which are as follows:

1. The main purpose of PSU is to provide goods and services which are useful for the society and help in country’s welfare in addition to paving the path for economic development. For instance, school, hospitals etc. .

2. Projects that require high investment and long gestation periods are not undertaken by any private companies. Hence, PSUs are the best choice for such projects.

3. Public sectors form the basic framework of the nation with respect to industrialisation, which will provide assistance to private firms at the next stage of industrialisation

4. India followed a socialistic government which allowed for equal right for everyone, therefore government controlled businesses will be leading to economic growth. PSU’s will produce goods as per the social needs of the country.

5. Inequalities in income will lead to higher standard of living, eradicate the existing poverty, therefore government should invest in the PSU’s.

7. Explain how import substitution can protect domestic industry.

Import substitution refers to the process of discouraging the import of goods that can be produced domestically. This strategy makes an economy less dependent on the imported goods and at the same time provide financial facilities, subsidies, knowhow and licenses to produce those goods in the country and allowing the producers to sustain and develop. There will be no competition as international producers are out of equation giving them monopoly status. By earning more profits they can enhance their knowledge which will be beneficial in expanding to international markets.

8. Why and how was private sector regulated under the IPR 1956?

IPR or Industrial Policy Resolution, 1956 was a resolution that was adopted by Indian parliament for the Industrial development in India. This resolution was to create a socialistic pattern of society. Under this rule there were three categories of industries which were:

Schedule A: Industries that are exclusive responsibility of the state

Schedule B: Industries that will be pre-dominantly owned by the public sector while private sector will be supplementing the efforts of the public sector

Schedule C: The remaining industry types that will be managed by private sector

The government although defining a separate category for private sector wanted to keep the sector under state control and hence created rule that in order to open a new industry or to expand an existing one, license was required to be obtained from the government. If the industry was opened in a backward area, the government would offer subsidy and other facilities such as easy licensing. This step was taken to maintain regional equality. In order to increase production, license was required so that no such goods were produced which is socially undesirable.