CHAPTER 4

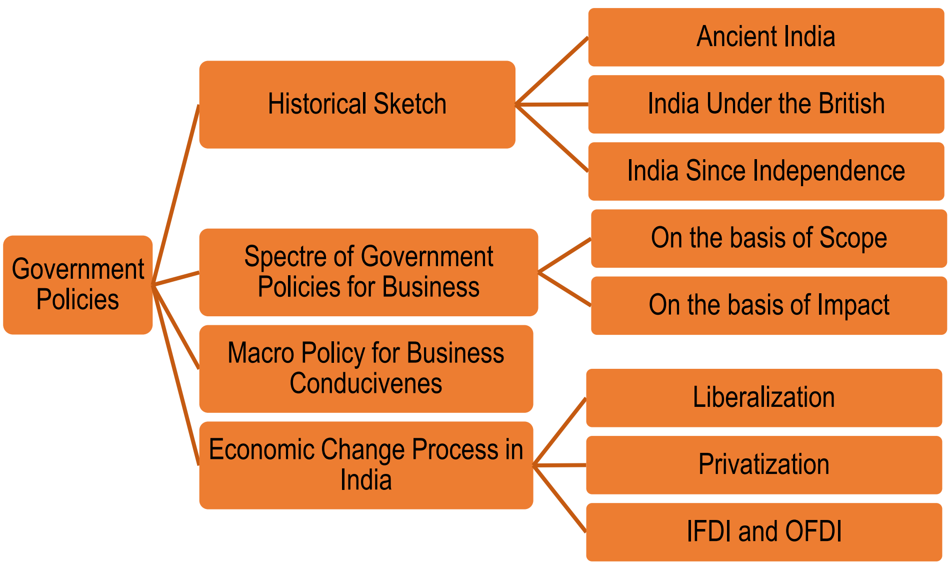
GOVERNMENT POLICIES FOR BUSINESS GROWTH

LEARNING OUTCOMES

After studying this chapter, you will be able to:

- Highlight the pervasiveness of the influence of government policies on business.
- Distinguish among government policies on the basis of their scope and impact.
- Describe the major shifts in government policies on business since independence.
- Explain the concept and importance of liberalization.
- Explain the concept and measures of globalization policy.
- Describe privatization as a source of new opportunities of business growth.

CHAPTER OVERVIEW



4.1 INTRODUCTION

Raman was a computer science graduate and he developed an app based solution for blind students. Ali, his friend was a CA Rank holder. Ali had 3 offers from two big audit firms and from a consulting company. Raman understands technology. But he does not know finance, law and government policies. On the other hand, Ali has no exposure to technology but he understands Patent Law, IPR (Intellectual Property Law), GST formalities, Financial Reporting and Corporate Governance issues. Ali understands the commercial possibilities of Raman's innovation. They form a team to pitch for arranging funds from venture capitalists.

Legal processes, tax policies, business restrictions, financial reporting of any nation follows from government policies. Naturally Government Policies are *sine qua non* for all spheres of the economy. Not only the business startups by young entrepreneurs like Raman and Ali, but also the large scale enterprises and multinational corporations are impacted by government policies.

In Bangladesh as a state policy, import of second hand foreign cars is allowed. Toyota steers this policy to their favour. Second hand Toyota cars are sold in numbers through Toyota approved dealers in Dhaka. Refurbished cars collected from buy back scheme are sold in Dhaka market. Toyota manages several service stations in the cities of Dhaka, Chittagong and Rajshahi to provide after sales service.

On the contrary, in India, as a government policy, no foreign car manufacturers are allowed to sell imported cars. They need to form a wholly owned Indian subsidiary or to be a part of a joint venture. Toyota manufactures cars in India as a joint venture with Kirloskar Motors.

Government policies impact business policies too.

For example, heavy vehicle manufacturer Volvo, aspires to follows the policy of treating everyone with respect. They aspire to foster an inclusive culture where everyone can contribute to their full potential and be accepted for who they are, regardless of gender, gender identity, nationality, ethnic origin, religion, age, sexual orientation, any disabilities, etc. However, the gender equality policies are not similar in all countries. Thus, it becomes difficult to accomplish this aspiration.

From the foregoing introduction one can infer the pervasive influence of government policies on domestic and global businesses. Indeed, right from inception of the business to its longevity, health, performance and growth – even its exit- one could imagine an overlay of government policies and the consequential regulatory regime on every aspect of a business' s functioning.

4.1.1 Policy Framework in India – A Historical Sketch

Ancient India

In India, a lot of discourses, researches and experiments on public policies used to take place in the age-old universities of Takhshashila, Vaishali and Nalanda. During the time of Emperor Chandragupta Maurya, the great intellectual guru of the emperor, Chanyaka outlined the public policy of the state. He authored the book "Arthashastra", a conceptual framework of state craft and public policy. In Greek city states and Roman empire, public policy was centre of attraction. Philosophers like Plato and Aristotle had a number of discourses on public policy. During the time when Ashoka the Great ruled Magadh, he introduced the policy of peace and harmony. On the other hand, Guptas defined various policies on taxes, trade and warfare. In Delhi Sultanate Alauddin Khilji introduced a stringent tax reform, whereas during the time of Akbar the Great, land reforms were introduced under the leadership of Todarmal. In all the forms of governance, be it oligarchic, monarchy, aristocracy, tyranny or democracy, public policies were formulated and implemented.

India Under the British

Economic policies under the colonial rule were so designed as to benefit the foreign rulers. Dadabhai Naoroji through his seminal work 'His book Poverty and Un-British Rule in India' drew attention to the drain of wealth from India into Britain. They introduced *zamindari* system to extract maximum revenue from the Indian peasants. They introduced managing agency system through which it was possible for a handful of the wealthy British to build and control vast industrial and business empires in India; sometimes with the assistance from Indian partners. The British government in India just fulfilled the duty of the police state that is maintenance of internal order and defence of the Indian border. Their policies indirectly curbed the economic freedom of the Indian people, politically we were subjugated anyways.

India Since Independence

Independence from the colonial role in 1947 paved the way for re-chartering business growth in India. The fact that we came with the first industrial policy in the year 1948 suggests the urgent priority the government accorded to fuelling industrial business and economic growth. Preamble to the Constitution of India adopted in 1950 conferred on people the economic freedom and recognised the right to carry on business and trade as a fundamental right. We embarked upon economic planning – the First Five Year Plan was launched in 1951. The Industrial Policy Resolution 1956 was to usher in an era of direct ownership of government in business through departmental undertakings, statutory corporations and government companies in the sectors private investment was either not able or willing.

After Independence and up to the first 3-4 decades the socialistic economic system with dominant Public sector was prevalent in India. Further, setting up of industrial units was brought under the regulation of licenses. A host of industrial and labour laws were put in place to ensure the orderly development of business activities in India. This era lasted for over three decades or so.

The 1990s (to be precise 1991) marked the emergence of a new era of economic policies in India an era that is popularly known as the era of liberalisation, privatisation and globalisation. Taken together the economic policies represent a departure from the policy regime based on economic planning toward what is known as neo-liberal economic thought that placed greater emphasis on the private, market mechanism for addressing the prevalent economic-social problems.

Characteristically therefore the policy regime of the 1990s was almost diametrically opposite to the policy regime since mid-fifties. See, Table-1

Table-1: Policies of the Fifties and Nineties

Bases of comparison	Policy regime of mid fifties	Policy regime since 1990s
Evident Nature of Economic System	Socialistic economy, with dominant public sector	Mixed economy
Dominant instrument of economic governance	Economic planning	Market mechanism

Openness Orientation	Closed economy policies	Open economy policies – toward globalisation
Role of Government in Business	Acquiring commanding heights through public sector undertakings	State ownership of business as exception; privatisation of public sector undertakings
Role of Government vis-à-vis Private Business	Regulation and control	Liberalisation of regulations

It is important to understand that the economic policies are not drawn in closed chambers; rather these do and must reflect the prevalent and emerging social, demographic, political and ecological realities of the nations. Of course these are not changed frequently so as to throw the system into a vortex of instability. Yes these need to keep pace with the needs and aspirations of the people. In other words, these policies must find a meaning in the lived experiences of the people (See, Table-2).

Table-2: Economic Policies as Lived Experiences

	Engage in a conversation with your parents and grandparents on how the economic life was during their times, the changes they have witnessed and generate evidence in respect of the following life phenomena. Feel encouraged to add phenomena to the list and reflect upon these as the outcomes of the changes in the economic policies.	
Life Phenomena	Life During 1970s	Life During 1990s
Cement & Steel for House Construction		
Buying a scooter or car		
Availing a phone connection		
Frequency of eating out or ordering in		
Modes of recreation		

4.1.2 Spectre of government policies for business

Section 4.1 notes the pervasive influence of government policies on business. There hardly is any aspect of business- be it production, finance or marketing that is not influenced by government policies. Government policies and laws pervade the successive stages in a firm's life cycle. There are policies and regulations impacting business start-ups and business registration (e.g. registration as a partnership firm or incorporation as a company), environmental clearances, conduct of business (e.g. policies affecting competition), dealings with consumers (consumer laws) and even exit (e.g. Insolvency and Bankruptcy). Moreover, apart from the policies of the Central government there are policies of the state governments too that influence business activities in the respective states. It would not be possible to elaborate all these in this chapter. Instead, what is attempted here is an overview of the economic policies and a discussion on how these impact businesses. See Figure-1.

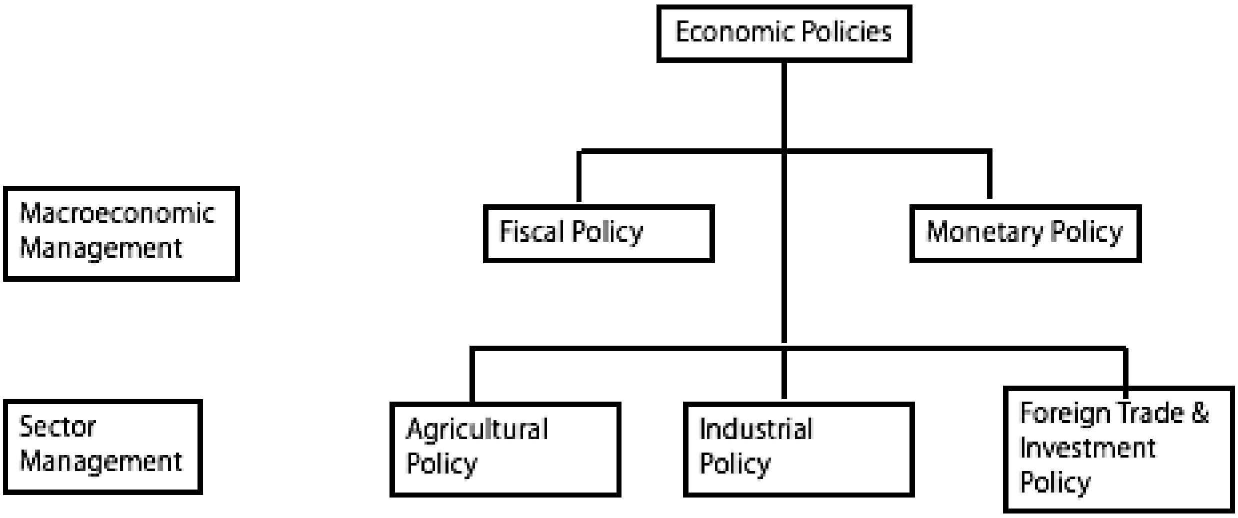


Figure-1: A typology of Economic Policies

The typology of economic policies exhibited in Figure-1 pertains to their scope. Fiscal policies - that is the policies relating to government expenditure and tax and nontax revenue- and the monetary policies – that is policies relating to supply of money, credit and foreign exchange broadly impact the business. For example easing of credit – the form of either access or cost- might induce the firms to step up their investment and thereby realize business growth. How may fiscal policies impact business?

Think#1 	How do fiscal policies impact business?

It would not be out of place to leave a cue with the learners on the impact of fiscal policy on business. The world is experiencing the worst ever economic down turn due to Covid19. Indian economy has not been an exception. The government announced a fiscal stimulus package to revive the economy. Likewise, in the past, the government provided fiscal stimulus in the wake of world economic crisis of 2008. These stimuli seek to work on the demand side and supply side of the economy and thus attempt to pedal it through the likely collapse! In fact, all economic policies work on demand side or supply side or both.

Sectoral policies pertain to the specific sectors of the economy. Figure-1 illustrates policies pertaining to agriculture, industries and foreign trade and investment. We have noted in Section 4.1.1 as to how the industrial policies of 1956 and 1991 radicalised the industrial sector in India. There may be government policies for specific industries too. **For example**, telecom policy, civil aviation policies address to the specific needs of and impact the respective industries.

4.1.3 Macro Policy Indicators and Business Conduciveness

GDP, inflation, tax rates, interest rates, and exchange rates are the five most significant macro policy indicators impact business. It is almost a standard recipe of business conduciveness that growing GDP, moderate inflation, low tax and interest rates and moderate exchange rates serve as tonic for business. How? Growing GDP is an indicator of economic optimism and high demand expectations. Thus, a virtuous cycle is activated whereby high demand expectation is interpreted as growth opportunity, greater investment leads to greater production; greater production leads to income generation and thereby greater demand and hence lasting growth! Likewise moderate inflation too arouses business optimism for rising prices serve as opportunity trigger for higher profitability. Note the prefix "moderate" for too low an inflation shall have a sedation effect on the economy and too high an inflation will give rise to uncertainties, rise in costs and erosion of profits. Rate of tax on business income is a key fiscal policy indicator directing business investment. In general lower tax rates stimulate business investment and higher tax rates repel it. Globally too, investment tends to gravitate toward lower tax regimes. Investment is inversely related also with the interest rates. Lower interest rates qualify the investment projects with lower return on investment and hence companies can expand their business portfolios. Moderate exchange rate that is moderately high external value of domestic currency stimulates business in two major ways: one by making the imports dearer, it encourages import substituting production; two by making the exports cheaper it enhances the international competitiveness of domestically produced goods and services. Besides it also stimulates foreign investment as the companies desirous of seizing market but inhibited by tariff walls can do so by setting up businesses here.

The five macro-economic variables discussed above, if managed well indeed can together contribute toward a conducive and congenial environment of business survival and growth. It would be useful to reiterate their importance. See, Table-3

Table-3: Macro Variables and Business Conduciveness

Variable	Direction	Meaning
GDP	Rising	Economic optimism; high demand expectations
Inflation	Moderate	Demand and profit expectations
Tax	Lower	Incentive for investors in the form of post-tax business income
Interest	Lower	Lower cost of funds
Exchange	Moderate	Protection to domestic production; incentive for exports

It is important to mention a caveat here. The impact of macro variables on business is contingent upon a host of factors, including a host of non-economic factors such as politico-legal, socio-cultural institutions. In economics, it is almost imperative to hold other things constant while assessing the impact of one variable on the economy. **For example,** if moderately low exchange rate can help an economy, the other countries may resort to retaliatory exchange regimes. And thereby neutralise a country's advantage. Moderate inflation stimulates business more so if it is caused by increase in demand; a cost-push inflation even moderate may not be much conducive. Likewise, lower rates of interest may not by themselves be adequate in attracting investment in case other conditions of demand and supply are conducive. Thus the underlying causal factor, presence of other enabling factors on demand and supply side, complimentary socio-cultural institutions and above all the overarching assumption "given other things constant" mediate in the impact of macro-economic variables on business conduciveness. Not the least, there always is a time lag between calibration/ recalibration of a macro-economic variable and its impact.

4.1.4 Policy formulation and Impact Transmission Process

It has been seen the government policies are drawn not in closed chambers but in view of the developmental aspirations of the nation. The ultimate responsibility for policy formulation lies with the concerned ministry. The ministry in turn functions through committees, commissions and institutions. At the ground level the recourse is taken to a wider consultative and participative process of engagement with the stakeholders. The draft policies are put in the public domain for comments, critique and suggestions. The policies thus framed are then implemented and their impact is felt. There can be several ways of implementing the policies. **For example,** Reserve Bank of India is the institution to implement government's money and credit policy. It has several instruments such as bank rate to influence the supply of money & credit. The volume and cost of money and credit exerts its influence through the interest rates in the money market. Thus, broadly the policy influences get transmitted through institutions and instruments and the concerned markets where businesses operate. See Figure-3.

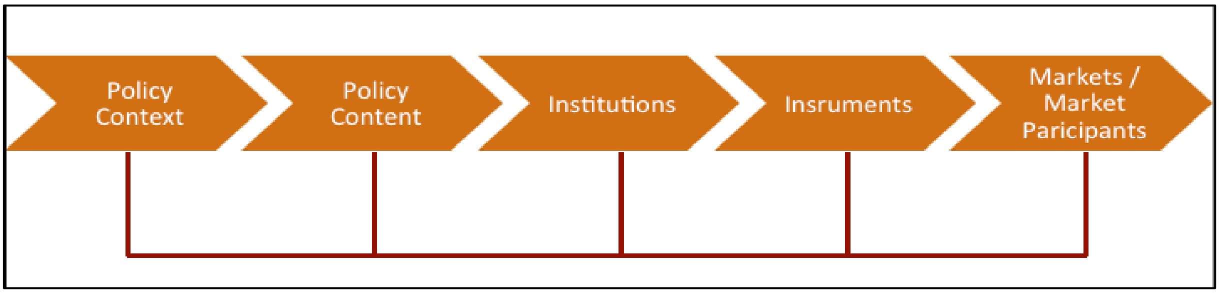


Figure-3: Policy formulation and impact transmission

It is important to note that the process is bi-directional. The real time and post implementation feedback enables their further calibration to better serve the purpose for which these were envisaged.

4.2 TYPES OF GOVERNMENT POLICIES BY INTENDED IMPACT

From the perspective of their impact on business we may categorise government policies into 4:

- Protective Policies
- Restrictive Policies
- Regulative Policies
- Facilitative / Developmental Policies

Protective policies aim to provide protection to the businesses so that these may sustain themselves and grow. **For example**, economic policies during Mid-fifties to Eighties restricted the entry of multinational corporations in India so that the Indian firms grew in a protective environment.

Restrictive policies put a curb on business growth lest it should become detrimental to the interest of the consumers and public at large. **For example**, growth of a firm into a monopoly or a dominant position might endow it with economic power such that it may exploit consumers with imposing on them higher price or compromise on quality. In India, the erstwhile Monopolies and Restrictive Trade Practices Act sought to check concentration of economic power in a few hands. The Act was subsequently repealed and now the Competition Commission of India looks into these aspects.

Regulatory policies While the freedom to carry on business is fundamental, yet, like coordination and control over traffic, rules of the game must be set. Clearly such policies aim at putting in place an institutional set up for the organised functioning of the relevant activity/ market. This institutional set up might comprise the ministries e.g. Ministry of Railways, authorities within the ministries e.g. Director General of Foreign Trade (DGFT) or some autonomous entities. As you will study in the next chapter, the Reserve Bank of India (RBI) regulates the Money Market and Forex Market operations; the Securities and Exchange Board of India (SEBI) regulates the capital- equity, bond and derivative- markets; and the Insurance Regulatory Development Authority (IRDA) sets the rules of the game for the insurance industry.

Facilitative / Developmental policies are the ones which facilitates an activity. The conducive policies towards the development of MSMEs (Micro- Small-Medium Enterprises) are an example of facilitating policy. The formation of National Skills Development Corporation (NSDC) is another facilitating policy of government of India.

The interface between government policies and business growth occurs more importantly with reference to the policy changes. We have already seen that the economic policy framework of the 1990s was intended to be friendlier to private and multinational businesses. In fact, successive liberalisation and dispensing of the restrictive policies creates a more favourable climate for business growth. Thus, if limits on foreign capital in Indian enterprises are raised this allows the businesses to grow; if the definitional limits of investment for micro, small and medium enterprises are raised, there is an opportunity for the smaller firms to grow.

In a still broader sense, we need to interpret government policy- business interface in terms of the easing of business and business facilitation. That is how permissive, supportive, promotional and development oriented are the government's policies for stimulating, supporting a sustaining greater business activity. In this context the scope of the interface between government policies and business growth is extended to such government policies as those pertaining to augment civic infrastructure, utilities such as electricity and water, development of industrial corridors, towns and estates and easing of their access by simplification of the procedures for obtaining permissions and clearances etc.

4.3 THE ECONOMIC CHANGE PROCESS

The economic change ushered in 1991 aimed to raise India's growth potential. Apart from internal liberalisation through deregulation it sought to alter the structure of the Indian economy by increasing the scope of private and foreign capital.

4.3.1 LIBERALIZATION

Liberalisation means to remove or loosen restrictions. This happens via dismantling of licensing and permits, deregulation, easing of approvals and systematic loosening of legislative and administrative controls over business. We have already noted that the policy regime prior to the 1990s was characterized by a host of restrictions on private sector. While it is debatable whether these restrictions were relevant at the time they were imposed at the first place, these restrictions certainly seemed to have outlived their utility. These restrictions included the reservation of a sizeable number of industries for public sector, the requirement of obtaining licenses for capacity installation and augmentation, and reservation of items for exclusive manufacture in the small-scale industries. Seen from this perspective, liberalization may be defined as a systematic process of the enlargement and enhancement of the freedom of the private sector in the economy. Starting with manufacturing, and then services, infrastructure, and even the strategic sectors such as defence production one has seen systematic creation of greater opportunities for private sector. See Table 4

Table -4

Winds of Change: Industrial Liberalisation in India

- The list of industries reserved solely for the public sector - which used to cover 18 industries, including iron and steel, heavy plant and machinery, telecommunications and telecom equipment, minerals, oil, mining, air transport services and electricity generation and distribution - has been drastically reduced to three: defense aircrafts and warships, atomic energy generation, and railway transport.
- Industrial licensing by the central government has been almost abolished except for a few hazardous and environmentally sensitive industries such as alcohol, cigarettes, industrial explosives, aerospace, drugs and pharmaceuticals.
- The requirement that investments by large industrial houses needed a separate clearance under the Monopolies and Restrictive Trade Practices Act to discourage the concentration of economic power was abolished and the act itself is to be replaced by a new competition law, which will attempt to regulate anticompetitive behavior in other ways.
- Indian industrial scenario has also been characterised by long standing policy of reserving production of certain items for the small-scale sector. About 800 items were covered by this policy since the late 1970s, which meant that investment in plant and machinery in any individual unit producing these items could not exceed the prescribed ceiling, thus limiting their scalability. Many of the reserved items such as garments, shoes, and toys had high export potential and the failure to permit development of production units with more modern equipment and a larger scale of production severely restricted India's export competitiveness. As a result, there has been phased de-reservation of items to unleash the growth potential of the promising industries.

Source: Adapted from Montek S. Ahluwalia, 'Economic Reforms in India since 1991: Has Gradualism Worked?, *Journal of Economic Perspectives*, Summer 2002.

Note: The facts mentioned in Table-4 are not updated. Since the aforementioned paper, India has witnessd much more significant and substantial liberalisation.

Liberalisation has resulted in the opening of a host of new industrial sectors for private enterprise that were hitherto exclusive state monopolies. Moreover, doing away with industrial licensing meant ease of entry for the new players in various industries and opportunity for expansion to the existing players. In fact, in most cases liberalization meant greater freedom not only for domestic private sector but also for foreign direct investment and trade. As a result various industries have undergone a virtual metamorphosis. Notably among these have been banking, insurance, telecom, automobile, consumer durable and even FMCG (fast moving consumer goods) sector. We have also seen transformation in the retail sector with the emergence of shopping malls and e-commerce.

4.3.2 Privatization

Privatization as a strategy had been experimented in the western world a decade earlier than that experimented in India. During the Prime Ministership of Mrs. Margaret Thatcher, British Coal Mines were privatized; many of the components of National Healthcare Services and School Education Services were privatized. Privatization refers to a managerial approach of changing the ownership structure of one or more government owned institutions. Privatization can be advantageous in terms of the higher flexibility and scope of innovation it offers along with cost savings, many a times. However, it has an adverse impact on the employee morale and generates fear of dislocation or termination. It looks for accountability and quality in production and service system. Privatization can be successful, if diligent scrutiny by the decision makers is attached to the policy concerned.

In the Indian context, privatization effort was not easy. There were hardly any takers for loss making public sector industries. On the other hand, there had been many takers for surplus making industries like Oil drilling and Refinery companies, or the ones in mineral extracting sectors like Steel Authority of India Limited, National Mineral Development Corporations etc. Government decided to privatize the loss making companies fully and the profit making ones and banks partially. The effort of privatization was accepted by the society with a lot of resistance during the inception of economic liberalization in the nation.

Privatization helps in a big way to enhance market potencies by enhancing efficiency, quality and competitiveness. Privatization is an essentially effective tool for rapid restructuring and reforming the public sector enterprises. In India (also witnessed in other nations) public sector entities remained inefficient as far as profitability and quality is concerned. They were running without a significant aim and mission. The private sector, on the other hand is perceived to be more self-motivated, prolific and reliable for superior quality of products and services. Though there are exceptions.

Privatization may be of conceptualized in following prominent types:

- **Delegation:** Government keeps hold of responsibility and private enterprise handles fully or partly the delivery of product and services. There is active involvement by government. Delegation may happen through contract, franchise, grant, etc.
- **Divestment:** Government surrenders partial ownership and responsibility and sells the majority stake to one or more private entities in course of time.
- **Displacement:** The private enterprise expands and gradually displaces the government entity. Deregulation facilitates privatisation if it enables private sector to challenge a government monopoly. The government monopoly through BSNL and MTNL has been displaced by the private sector.
- **Disinvestment:** Selling a portion of ownership (stake) in a public enterprise to private parties.

4.3.3 Inward Foreign Direct Investment in India (IFDI)

Foreign Direct Investment (FDI) plays a very important role in the process of development of a nation. In most of the cases, capital sourced for domestic sources remain inadequate for the purpose of overall development of the nation. Foreign capital is seen as a harbinger of growth. In a sense, it is like filling in the gaps between domestic savings and investment. In the post liberalization and privatization period, India was considered a lucrative place of FDI inflow because of its huge domestic market.

For a closed economy, any national program of privatization for its success needs a successful move towards globalization. Globalization creates a wide market of goods and services. At the same time, foreign funds flow in an economy to be invested in various industries. Foreign funding in good sense creates employment as well as demand. For a steady flow in foreign funds, liberalization of economy is required. Liberalization is always paired with regulations.

Foreign Direct Investment (FDI) may be described as a flow of capital investment to an enterprise in a nation by another enterprise located in a different nation by capturing a majority stake in ownership in a company in the target country or by expanding operations of an existing business in that country.

Permission for Foreign Direct Investment (FDI) is not uniform for all sectors. Some sectors are opened up for 100% and in some sectors, it is allowed only upto 26%, 49% or 51%.

Foreign Direct Investment (FDI) has always remained a bone of contention and FDI in multi-brand retail, defense etc., are classic examples. It's often felt that areas like Media and Defense could compromise on India's security interest and hence no FDI should be permitted. In certain areas, the FDI limit has been capped, like the Insurance Business. Where there is no approval through Automatic Route, the company concerned has to seek permission from Foreign Investment Facilitation Portal (FIFP).

Here are a few sectors where FDI is prohibited under both the Government Route as well as the Automatic Route:

1) Atomic Energy
2) Lottery Business
3) Gambling and Betting
4) Business of Chit Fund
5) Nidhi Company
6) Agricultural (excluding Floriculture, Horticulture, Development of seeds, Animal Husbandry, Pisciculture and cultivation of vegetables, mushrooms, etc. under controlled conditions and services related to agro and allied sectors) and Plantations activities (other than Tea Plantations)
7) Housing and Real Estate business (except development of townships, construction of residential/commercial premises, roads or bridges to the extent specified)
8) Trading in Transferable Development Rights (TDRs)
9) Manufacture of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes.

India has been a prominent destination for FDI flows. India generally receives FDI from US, Britain, Singapore, Japan and the USA.

4.3.4 Foreign Institutional Investors (FIIs)

We often come across the term FIIs which represent the Foreign Institutional Investors. FIIs are large foreign groups with substantial investible funds. FIIs are registered abroad with a view to investing in other nations to invest in equity market, hedge funds, pension funds and mutual funds. FIIs have strong research team which speculate to invest in a country with a possibility of strong return in equity market. These funds park their funds to fuel a bullish market. Naturally for small period the nation experience inflow of strong foreign currency in its financial system.

Whenever the market reaches a peak and starts declining thereafter, these funds move to another nation. So, the euphoria is short lived. No wonder, national governments look for sustainable FDI investment over FII investment.

4.3.5 Investment from India Abroad (OFDI)

Policy of globalisation has favoured India not only in terms of Inward FDI but also in terms of outward FDI or OFDI. Indian firms invest abroad too. **For example,** in February 2020, Bharti Airtel invested US$ 978.92 million in its wholly owned subsidiary in Mauritius; in November 2019, PVR Cinemas, a leading multiplex chain, launched its first property in Sri Lanka, marking its first international venture; and in August 2019, Sun Pharma entered into a licensing agreement with China System Medical Holdings (CMS) to develop and commercialise seven generic products in Mainland China. Data released by the Reserve Bank of India show that Investments by Indian firms in foreign countries in January 2020 rose by nearly 40 per cent to USD 2.10 billion on a yearly basis.

SUMMARY

This chapter elaborates the importance of government policies on business. The government policies in some cases help in facilitating business, whereas in many other cases they are restrictive, controlling and regulating in nature. After Independence, India followed a mixed economic policy. A large number of Government companies (popularly called Public Sector Undertakings or PSUs) existed beside the private sector companies. After sticking to this controlled economic model for a long period of time, Government of India ushered in an era of policy shift during 1991. This policy change was popularly referred to as LPG (Liberalization, Privatization and Globalization). With this policy shift, the equity market strengthened. A lot of Foreign Direct Investments (FDI) flown in different sectors of the Indian economy. These policy changes resulted in the metamorphosis of the Indian economy.

TEST YOUR KNOWLEDGE

Multiple Choice Questions:

1. Fiscal policy relates to:
   (a) Government expenditure
   (b) Government revenue
   (c) (a) & (b)
   (d) Money and Credit
2. Find the odd one out.
   (a) Agricultural Policy
   (b) Industrial Policy
   (c) Foreign Trade & Investment Policy
   (d) Monetary Policy
3. After Independence and up to the first 3-4 decades the economic system prevalent in India may be regarded as
   (a) Capitalistic

(b) Socialistic

(c) Mixed

(d) Colonial

4. Which of the following policy/ ies pertain to macroeconomic management?

(a) Fiscal Policy

(b) Physical Policy

(c) Monetary Policy

(d) (a) & (c)

5. Consider the following two-columnar interpretation of the economic policies of liberalisation, privatisation and globalisation and choose the correct combination of the answers given below it.

(i)	Liberalisation	(a)	Mitigation of the role of public sector
(ii)	Privatisation	(b)	Foreign trade
(iii)	Globalisation	(c)	Deregulation
		(d)	Foreign Investment

(a) (i)-(c) ; (ii)-(b); (iii)-(d)

(b) ((i)-(d); (ii)-(a); (iii)-(b)

(c) (i) –(c)+(d); (ii)-(a); (iii) –(b)

(d) (i)-(c); (ii)-(a); (iii)-(b)+(d)

6. Following statements pertain to the meaning, importance and impact of economic policies. These statements are either correct or incorrect. Pick up the answer option that gets it all right.

i Macroeconomic policies operate only on the demand side of the economy.

ii. The impact transmission of the policies occurs through institutions and policy instruments.

iii. Policy formulation does not involve discussion with the stakeholders.

iv The impact of Sectoral policies is on the economy as a whole.

(a) i-Correct; ii-Correct iii-Correct; iv-Incorrect

(b) i-Incorrect; ii-Correct; iii-Incorrect; iv-Incorrect

(c) i-Incorrect; ii-Incorrect; iii-Correct; iv-Incorrect

(d) i-Correct; ii-Correct; iii-Incorrect; iv-Incorrect

7. The form of privatization, where government keeps hold of responsibility and private enterprise handles the management of it fully or partly is known as:

(a) Disinvestment

(b) Deregulation

(c) Delegation

(d) Decentralization

8. Which of the following is not attributable to Facilitative/ Developmental policies?

(a) Lifting of curbs on business

(b) Easing of doing business

(c) Creation of conducive conditions

(d) Imposition of clearances and approvals.

9. SEBI, RBI and IRDA are:

(a) Regulatory Institutions

(b) Policy institutions

(c) Satellite Institutions

(d) Goal setting bodies

10. Blackrock invested 30 million USDs as a portfolio investor in Indian stock market. This may be a case of:

(a) FDI

(b) FII investment

(c) Indirect investment

(d) NRI investment

11. FDI in sectors /activities which do not require any prior approval either of the Government or the Reserve Bank of India is identified as:

(a) Green Channel

(b) Priority route

(c) Non-Commercial Route

(d) Automatic Route

12. The method of FDI other than Automatic route is called :

(a) NRI Route

(b) Government Route

(c) Institutional Route

(d) Priority Route

13. FIFP stands for:

(a) Foreign Institutional Facilitation Board

(b) Foreign Institutional Forward Board

(c) Foreign Investment Forward Board

(d) Foreign Investment Facilitation Portal

14. Identify the sector where, FDI is not permitted:

(a) Automobile

(b) Infrastructure

(c) Textile

(d) Atomic energy

15. Simplification of trade restrictions related to import is an example of:

(a) Globalization

(b) Privatization

(c) Disinvestment

(d) Aggregation

16. Sale of 50% stake in a PSU to a single private sector company is an example of:

(a) Displacement of stake

(b) Decentralization of Authority

(c) Delegation of stake

(d) Disinvestment to form a Joint Venture

17. FDI is allowed in:

(a) Tea Plantation

(b) Coconut Plantation

(c) Sugarcane Plantation

(d) None of the above

18. After independence, India followed a:

(a) Socialistic Path of Development

(b) Commonwealth Model of Growth

(c) Mixed Economic Path

(d) Capitalistic Model of Development

19. Hyundai India Limited came to India through the FDI route. It followed the path of:

(a) Divestment in Public Sector Unit

(b) Joint Venture

(c) By creating a 100% Indian subsidiary

(d) Replacement of a government sector business.

20. Government policies are of four types:

(a) Restrictive, Regulative, Protective, Facilitative

(b) Restrictive, Regulative, Participative, Facilitative

(c) Voluntarily, Participative, Regulative, Restrictive

(d) Regulative, Voluntarily, Facilitative, Restrictive

21. BRICS is an economic organisation comprising:

(a) Brazil, Russia, India, China, South Korea

(b) Brazil, Russia, India, China and South Africa

(c) Bangladesh, Russia, India, China, South Korea

(d) Bhutan, Russia, India, China, South Africa

22. Privatisation refers to:

(a) Transferring Government ownership to private hands

(b) Disinvestment in public sector enterprise

(c) Opening those areas for private sector which are reserved for Government

(d) All of the above

23. Which of the following is incorrect?

(a) FDI is made with an intention of exercising control over an enterprise

(b) FDI is called Portfolio Investment

(c) FDI is a long run Investment

(d) FDI helps in upgradation of technology

24. Choose the correct statement:

(a) For sustainable economic development, FII is more preferable to FDI

(b) FDI has strong speculative effect in equity market

(c) In India, permission for FDI is not uniform for all sectors

(d) FDI is usually done to reap short term gains

25. Which of the following is not the concern of monetary policy?

(a) Interest rate

(b) Quantity of money and credit

(c) Disposable income with the households

(d) Both (a) & (b)

26. Choose the correct answer from among the combinations given below the following table

	Macro Economic Variable		Desired Direction for Conduciveness
(a)	Tax Rate	(i)	Higher the better
(b)	GDP	(ii)	Moderately Higher the Better
(c)	Inflation	(iii)	Lower the Better

(a) (a)-(iii); (b)-(i); (c)-(ii)

(b) (a)-(iii); (b)-(ii); (c)- (i)

(c) (a)-(i); (b)-(ii); (c)-(iii)

(d) Either a. or b.

27. Which of the following is not implied by liberalization?

(a) Decontrol

(b) Deregulation

(c) General broadening of the freedom of private enterprise

(d) Disinvestment of public sector enterprises

28. Which of the following reasons is/are correct for considering moderately low external value of domestic currency as conducive for domestic business?

(a) Protecting the domestic industry from competition from imported goods

(b) Making the exports competitive

(c) Tariff-jumping FDI

(d) All of the above

29. Reasons why lower interest rate may be conducive for business include:

(a) Makes investment proposals with lower returns eligible

(b) Enables mobilisation of savings of the households

(c) Reduces cost of capital

(d) (a) & (c)

30. Which of the following is the overarching, all inclusive assumption while assessing the conduciveness of the macro variables for business?

(a) Corresponding conduciveness of politico-legal and socio-cultural institutions

(b) Given other things constant

(c) Time-lag

(d) Non retaliatory/ compensatory adjustment neutralising a particular impact

Answer Keys

1	(c)	**2**	(d)	**3**	(b)	**4**	(d)	**5**	(d)
6	(b)	**7**	(c)	**8**	(d)	**9**	(a)	**10**	(b)
11	(d)	**12**	(b)	**13**	(d)	**14**	(d)	**15**	(a)
16	(d)	**17**	(a)	**18**	(c)	**19**	(c)	**20**	(a)
21	(b)	**22**	(d)	**23**	(b)	**24**	(c)	**25**	(c)
26	(a)	**27**	(d)	**28**	(d)	**29**	(d)	**30**	(b)