Class 12 Economics (Indian Economic Development) Chapter 3: Liberalisation, Privatisation and Globalisation: An Appraisal - Notes, Important Questions and MCQs (2026-27)

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These Class 12 Indian Economic Development Chapter 3 notes cover “Liberalisation, Privatisation and Globalisation: An Appraisal” from the NCERT textbook Indian Economic Development (2026-27): the 1991 economic crisis, the New Economic Policy, liberalisation of industry, finance, tax and trade, privatisation and disinvestment, globalisation, outsourcing, the WTO, and an appraisal of reforms – with tables, Q&A, 10 MCQs and a free PDF.

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Chapter Overview

In 1991 India faced a severe economic crisis: foreign exchange reserves fell to levels barely enough for about two weeks of imports, inflation was high, and the government could not repay its loans. India approached the World Bank and IMF and received a loan of about $7 billion with conditions.

The government announced the New Economic Policy (NEP) with stabilisation measures for the short term and structural reform measures for the long term, grouped under liberalisation, privatisation and globalisation (LPG).

Important Topics and Concepts

Background – 1991 Crisis

- Large fiscal deficits and rising government debt.
- Spending on non-developmental items; poor returns from PSUs.
- Gulf War (1990–91) raised oil prices; remittances fell.
- Foreign exchange reserves fell sharply.
- India borrowed from IMF and World Bank and adopted the NEP.

Liberalisation

- Industrial sector: licensing abolished for all but a few industries; fewer reserved industries for the public sector.
- Financial sector: RBI became a facilitator; private and foreign banks allowed; FIIs allowed in markets.
- Tax reforms: reduction of income and corporation tax rates; simpler indirect taxes (later GST in 2017).
- Foreign exchange reforms: rupee devalued in 1991; market determination of rate.
- Trade: quantitative restrictions removed; tariffs reduced.

Privatisation

- Transfer of ownership or management of PSUs to the private sector.
- Disinvestment: selling a part of government equity in PSUs.
- Navratna and Maharatna status gave greater autonomy to profitable PSUs.
- Aim: improve efficiency and raise funds.

Globalisation

- Integration of the economy with the world economy.
- Outsourcing: firms hire services from outside, e.g. BPOs, call centres in India.
- WTO (1995): successor of GATT (1948); promotes multilateral trade and removes barriers.
- India is a member of WTO and has reduced tariffs.

Appraisal of Reforms

- GDP growth increased; services sector grew fastest.
- Foreign investment and reserves rose sharply.
- Agriculture suffered – reduced public investment, subsidy cuts, crop shifts to exports.
- Industry faced cheaper imports and poor infrastructure.
- Disinvestment often undervalued PSU assets.
- Fiscal policies reduced revenue from tariffs.

Stabilisation vs Structural Reforms

Quick comparison.

Basis	Stabilisation	Structural
Period	Short term	Long term
Aim	Correct BoP and control inflation	Improve efficiency and competitiveness
Measures	Build reserves, cut fiscal deficit	Liberalisation, privatisation, globalisation

Key Facts of LPG

Item	Fact
NEP announced	1991
Loan from IMF/World Bank	About $7 billion
GATT	1948
WTO	1995
GST	2017
Profitable PSUs given autonomy	Navratnas / Maharatnas

Important Definitions and Terms

Term	Meaning
Liberalisation	Removal of government controls on the economy
Privatisation	Transfer of PSU ownership/management to private sector
Disinvestment	Selling part of government equity in PSUs
Globalisation	Integration with the world economy
Outsourcing	Hiring services from external sources
WTO	World Trade Organization, 1995
NEP	New Economic Policy, 1991
Devaluation	Lowering of currency value by government
Quantitative restrictions	Limits on import quantity
Navratna	Status giving autonomy to profitable PSUs

Short Answer Questions

Q1. Why were reforms introduced in 1991?

Due to a fiscal and balance of payments crisis with very low foreign reserves.

Q2. What is liberalisation?

Removal of unnecessary government controls and restrictions.

Q3. What is disinvestment?

Sale of part of the government’s equity in public sector enterprises.

Q4. What is outsourcing?

Hiring regular services from outside sources, often from other countries.

Q5. When was WTO formed?

In 1995, as successor to GATT.

Q6. Name two financial sector reforms.

Private and foreign banks allowed; FIIs allowed to invest.

Public investment and subsidies fell, and crops shifted to exports.

Q8. What are Navratnas?

Profitable PSUs given greater financial and operational autonomy.

Long Answer Questions

Q1. Explain the causes of the 1991 economic crisis.

High fiscal deficits and debt.

Non-developmental spending.

Gulf War raised oil prices.

Foreign reserves fell sharply.

Inflation and inability to repay loans.

Q2. Explain liberalisation measures introduced in 1991.

Industrial delicensing.

Financial sector reforms.

Tax reforms.

Foreign exchange reforms and devaluation.

Trade reforms – lower tariffs, removal of quotas.

Q3. Give an appraisal of the economic reforms.

Higher GDP growth and service sector boom.

Rise in foreign investment and reserves.

Agriculture neglected.

Industrial growth uneven.

Disinvestment and fiscal concerns.

MCQs with Answers

1. NEP was announced in(a) 1980 (b) 1991 (c) 1995 (d) 2000Answer: (b) 1991

2. WTO was set up in(a) 1948 (b) 1991 (c) 1995 (d) 2001Answer: (c) 1995

3. Sale of government equity in PSUs is(a) nationalisation (b) disinvestment (c) liberalisation (d) outsourcingAnswer: (b) disinvestment

4. BPOs are an example of(a) privatisation (b) outsourcing (c) devaluation (d) licensingAnswer: (b) outsourcing

5. GATT was established in(a) 1948 (b) 1956 (c) 1995 (d) 1991Answer: (a) 1948

6. Gulf War raised the price of(a) gold (b) oil (c) wheat (d) steelAnswer: (b) oil

7. Profitable PSUs given autonomy are called(a) Navratnas (b) Sick units (c) SSIs (d) MNCsAnswer: (a) Navratnas

9. Removing government controls is(a) globalisation (b) liberalisation (c) privatisation (d) planningAnswer: (b) liberalisation

10. Short-term reforms of 1991 were(a) structural (b) stabilisation (c) sectoral (d) agrarianAnswer: (b) stabilisation

Quick Revision Points

- 1991 crisis causes.
- NEP: stabilisation and structural.
- Liberalisation in industry, finance, tax, forex, trade.
- Privatisation; disinvestment; Navratnas.
- Globalisation; outsourcing; WTO.
- Appraisal of reforms.

Chapter Summary

India’s 1991 economic crisis – high deficits, low foreign reserves and inflation – led to the New Economic Policy with stabilisation and structural reforms. Liberalisation removed controls in industry, finance, taxation and trade, privatisation reduced the government’s role in PSUs, and globalisation integrated India with the world economy.

Reforms raised growth, foreign investment and reserves, especially through the services sector and outsourcing, but agriculture and parts of industry suffered, and disinvestment raised concerns.

Exam Tips and PYQ Pattern

- Learn crisis causes in points.
- Write each liberalisation area separately.
- Appraisal answers need both positives and negatives.
- Know WTO and GATT years.
- Define outsourcing with an Indian example.

Frequently Asked Questions

Is this chapter in the 2026-27 CBSE syllabus?

Yes. It is part of the NCERT Class 12 Economics textbook “Indian Economic Development”, prescribed in the CBSE 2026-27 syllabus.

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Yes. Use the free PDF link at the top of this page – no signup needed.

Why were economic reforms introduced in India in 1991?

Because of a severe balance of payments and fiscal crisis, with foreign reserves falling to very low levels.

Privatisation is transferring ownership or management to the private sector; disinvestment is selling part of government equity in PSUs.

Conclusion

LPG is one of the most important IED chapters. Learn the reform areas and appraisal points and save the free PDF.

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Author Bio: Written and reviewed by the Nextoper Editorial Team, a group of CBSE economics educators who build chapter notes directly from the NCERT textbook and past board paper patterns.

Freshness Note: These notes follow the NCERT Class 12 Economics (Indian Economic Development) textbook, Indian Economic Development (NCERT reprint 2026-27, rationalised syllabus), and the CBSE syllabus for the 2026-27 session. Last checked on 26 November 2026.