

# A STUDY ON IMPACT OF DEMONETIZATION ON INDIAN ECONOMY

**JAYISH HASIJA (21GSOB1010346)**  
**GUIDE :- MR. ROHIT SHAH**

## **ABSTRACT**

This paper entails the problems related to pre and post demonetization period and thereby to find out solutions and to provide suggestions in order to overcome the problem. A survey was conducted around 65 applicants responded actively. Demonetization is the process of withdrawal of a particular form of currency from circulation. The purpose of the study is to compare and analyse the impact of demonetization on Indian economy during pre and post period. The older denominations must be replaced with the new one's. This article also covers the various other countries who tried demonetization they are Nigeria, Ghana, Pakistan, Zimbabwe, North Korea, Soviet Union, Myanmar and Australia. The findings of the study reveals that India will achieve a significant growth by adopting the demonetization strategy and will create a huge positive impact on the entire economy in a long run. This paper also shows that it was quick step taken by the government of India without any measures which people had to face a lot of consequences in standing in the long queues to exchange their older denominations.

**Keywords:** Black Money, Black Market, Cashless transactions, Digital economy, Currency, Indian economy, Gross Domestic Product, International Financial Market.

## **INTRODUCTION**

“Demonetization is the act of stripping a currency unit of its status as legal tender.” The idea of demonetization was bought by prime minister of India Narendra Damodardas Modi to stop black money circulation. The old unit of currency must be demolished with the new ones. Its an effective way of curbing black money. On November 2016 the government took the great initiative to crack down on black money in the country. Fiji, Singapore and Philippines were the country after India who have opted for demonetization. The reserve bank of India has withdrawn the old Rs 500 and Rs1000

notes. People who had this higher value of notes were given an extended period till January 2017. It was an important decision taken by the pm of India against bureaucrats, politicians, business class people, terrorists, smugglers, drug dealers or the black marketing people who were engaged in unlawful activities which would lead an harmful impact on environment as these notes would no longer be legal tender from midnight, 8 th Nov 2016.

In India demonetization was required to track fake currency, tax avoidance, etc. So the curbing of black money can lead to positive impact in the countries economy. Its an process of removing black money

completely. Its a step against parallel economy, so we need to corporate with prime minister along with the government of India for this great decision taken by them. It will create a better future for the coming youths. Due to demonetization, India would turn cashless and everyone will start doing easy transactions,i.ecredit card .



So the elimination of black money can lead to positive impact in many ways. The progress would lead to drastic change in all other factors. In India we can see that each and every citizen is above poverty line. More of black money can lead to change in country's economy.

Demonetization will help the Income Tax Department as money will be caught so the terror funding activities couldn't occur. Terrorism is a threat to our country, if black money is completely thrown out then there would be a reduction in the crime rate. Therefore our country will be in the safe hands and condition of living will be improved. Tax revenues are increased which is an benefit of demonetization. People had to face a lot of problems as it was a quick step taken without any preparations.IT Department were able to find black money at a larger scale.

Demonetization helps in catching illegal forms of money through various means. In India, due to demonetization there would be a lot of changes soon everyone will go cashless through online

transactions,i.eDebit card. Demonetisation helps to control inflation. It helps to promote cashless economy.

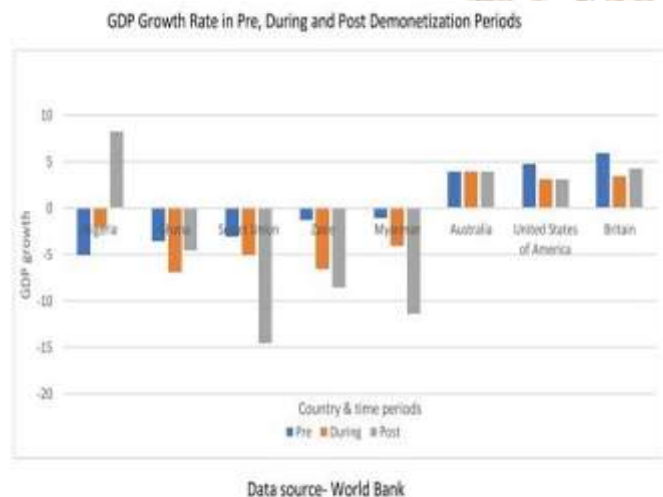
However the older denominations were allowed to get converted into euros for some period of time. It will help in smooth transition. In 2015,Zimbabwe also took this crucial step of demonetization to overcome the problem of hyper inflation. According to RBI reports on 31<sup>st</sup> march 2016,denominations of Rs 500 and Rs 1000 notes were consisting around 86% of the total cash and was having an approximate value of Rs 15.44 lakh crore. Demonetisation was an important step taken by the Pm to tackle problems such as terrorism, corruption and all means of illegal money. It will also help to remove fraudulent money.

This move proved very helpful in cleansing the formal economy of the country and discarding black money. Many previous attempts made have resulted into good and few recorded adverse effect on the country's economy. In the present Indian economic conditions, the long term impacts are left to be registered. The short term effect has brought a negative result in the country's economy. Luxury commodities were in shortage of prices which was bullish hit in the economy.Pm modi is also organising various campaigns like "jan dhan bhojana".These organizations work towards digital India. All transactions should be performed through cashless means.

In India ,there were many situations when higher denominations notes were curbed.RBI printed the highest value notes of rupees 10000 in the year 1938.After that government demonetized rupees 1000 and higher value notes in the year 1946.Higher value notes of rupees (rs1000,rs 5000,rs 10000) reintroduced in 1954 and all of them were demonetized to remove the black

money of illegal tender. Rupees 2000 notes were first time introduced in the year 2016. Firstly denominations of rupees 500 was introduced in the year 1987 in order to can see in the table.

### GDP Growth Rate in Pre, During and Post Demonetization Periods



By collecting the growth rates of the countries, which has done the demonetization, at the time of demonetization show that most of the countries lost growth due to that. Nigeria had a negative growth rate during demonetization and before demonetization year so their Economy strained at that time but after the demonetization they grew at a higher rate. Other than this Australia was very much stable in growth rate point of view in pre and post demonetization period. United states and Britain felt a slowdown in the growth rate during demonetization year but after certain period of time they grew at a higher rate. Many other countries also done black money curbing step when had to face the problem of negative growth rates in the following years, so they couldn't succeed and their economy completely vanished. By this we can understand that it is pretty hard to sustain the growth, and we should be aware and

alert of that fact and should take appropriate actions or measures, otherwise the same story would remain for us also.

### REASONS BEHIND DEMONETIZATION

- ➔ To tackle black money in the economy.
- ➔ To lower the cash circulation in the country which "is directly related to corruption in our country.
- ➔ To eliminate fake denominations and dodgy funds which are being used by terror groups to raise terrorism in India.
- ➔ To fight Black money, corruption, terrorism and counterfeit currency with one single decision.

### Definitions

- ➔ "Demonetization is a drastic innovation into the economy that involves removing the legal tender status of a currency".
- ➔ "Demonetization can cause chaos or a serious downturn in an economy if it goes wrong."
- ➔ "Demonetization is a weapon used to stabilize a currency and fight inflation, to facilitate trade and access to markets, and to push informal economic activity into more transparency and away from black and grey markets"
- ➔ Demonetization is an act of discarding the legal tender status of a currency unit in circulation. Anticipating positive changes on the liquidity structure as a whole, nations often adopt demonetization policy as a whole to maintain the balance of current economic system of the country. It will help to control hyperinflation and gives economy a boost in respective fields

### NEGATIVE EFFECTS

- ➔ Cash shortage Stock market cash
- ➔ Dumping of agricultural produce Drop in



industrial output

- Queues outside the bank
- People faced difficulties in marriage occasions and other
- Many of the people do not have their bank accounts in rural areas



### POSITIVE IMPACTS

- Demonetization has a very positive impact of millions of human traffickers
- Other sectors like drug trafficking, illegal dealing of money, funding of election and involvement of various terrorist groups effected badly.
- Steps towards cashless economy
- Real estate can see significant course of correction
- Less chance of avoiding taxes
- Parallel economy



**Some positive effect of demonetization on the economy are as follows:**

1. **Break Down of Black Money:-**Black money accumulation affects a country's economy in a negative way. It helps in shutting down the trading of goods or services which are runned through illegal means and thus destroying the savings and having a positive impact on its economy.
2. **Real Estate:-**Real Estate is one of the industry that runs largely on black money. Demonetization stops the flow of black money in the real estate sector to ensure a fair system.
3. **Increase in Bank Deposits:-**The circulation of the old currency notes are banned and those who are having these denomination notes should get their money deposited in the banks so that there is no wastage. Hence, cash amounting of millions of rupees get deposited in the banks.
4. **Cutting Monetary Support for Terrorist Activities:-**Anti-nationals support terrorist activities in the country by providing monetary support to the terrorist groups. This money helps helps them to purchase arms and ammunicions. Due to demonetizations funds which they were using would be completely vanished and thus promoting peace and harmony among people.



**REVIEW OF LITERATURE**

Guru and Shruti Kahanijow(2010),Researcher analyzed the black money income? Need for amendment in DTAA & ITEA and analysed that black money is spread everywhere in India up to a large extent which continuously stashed towards abroad in a very large amount. The researcher also identified how black money had caused menaces in our economy and in what ways it is used.

Tax Research Team(2016),the main objective is to analyse the impact of demonetization on Indian economy and it shows the impact of such a move on the availability of credit, spending level of activity and government finances.

Sukanta Sarkar(2010),conducted a study on the India's parallel economy :Causes, impacts and government initiatives in which the researcher focused on the existence of causes and impacts of black money in India. According to the study, the main reason behind the generation of black money is the Indian Political System that is the Indian government just focused on making committees rather than to implement it .The study concludes that laws should be implemented properly to curb black money in the economy.

Abhani Dhara K. (2017) posits that this Demonetisation is proving to be more successful than the previous two. The era is changing. People are using online banking as a mode of payment. Bank employees are giving their best to make the demonetisation a successful one. Their support matters a lot. Though the demonetisation move has failed to grab total black money in the economy, this has at least created fear in the minds of people holding black money. He concluded that demonetisation was a compulsory step to tackle the problem of black money, terrorism and

corruption etc.

Veerakumar, K. (2017) posits that the announcement of demonetization of 500 and 1000 currency notes by the government is a big shock to the citizen of India. The highest currency notes are withdrawn from the economy to counter the problem of tax evasion, counterfeit currency and financing of terror activities. It is shown that huge money is being deposited into the bank accounts which are more than specified limits and are subject to penalties and taxes. Usage of e-wallets, debit and credit card has been increased tremendously and this will create better cashless infrastructure.

Shah, Ayash Yousuf (2017) stated that Demonetization is one of the major steps in fighting against corruption, black money and terror funding. However, this decision was taken without proper preparation and it adversely impacted the public. Without printing enough new currency notes 86% of the currency notes were withdrawn thrashing all market transactions. Only common people had to face problems exchanging their notes, not the people who were targeted. With an intention to rid the country of black money and dig out tax defaulters and black money holders, the government has taken the step to demonetized Rs 500 and Rs 1000 notes. The sudden announcement of demonetisation and failing to plan properly has created chaos among the general public. Common people are facing problems buying with no money in their hands, wasting their time standing in endless queues could have easily been avoided with advance planning.

Shambhogue Girish Kumar, A. Prashant, Bhat, Swathi and Shettigar, Chethan(2016) defined currency ban as a move to stop counterfeit bank notes were allegedly used for terror financing, as well as a surgical strike to black money and



corruption in the country. Demonetization leads to cash shortages in the country which proves detrimental to a number of small business, agriculture and transportation. The shortage of cash led to chaos and most people faced problems to exchange their bank notes due to long queues outside banks and ATM's across the country. This demonetization step was proved to be the biggest attack on black money and corruption in the history of Indian Economy and a movement towards digitalization. It also encourages digital payments. They concluded that Demonetization is advantageous in short, medium and long-term.

Muthulakshmi, E. Kamatchi (2017) in her paper entitled "Impacts of Demonetization on Indian Economy – Issues & Challenges" states that when money is withdrawn from the economy, the country will not be and meaningful impact. She also states that the demonetization move, on one hand, was a serious attack on black money, corruption, Hawala transaction, counterfeit currency and terror financing. On the other hand, it had a negative impact on various sectors like commodities such as gold and real estate.

## **METHODOLOGY**

### **OBJECTIVES OF THE STUDY:**

- ➔ The objectives are designed to have a particular direction to study like what aspect is to be studied. A topic can be studied from various parameters, the objectives designed for a project gives an hint that in what manner the topic is studied, what is the flow of project, what are the variables selected for the project, etc.
- ➔ To discuss the various marketing strategies that can be adopted while facing an environmental change. To design steps to tackle environmental

change while the organization is facing a resource crisis.

- ➔ To study the experience of impact of demonetization in various countries in past years; To analyse the current immediate impact of demonetization on Indian economy.
- ➔ To workout the probable consequences of Demonetization. To understand meaning and reasons of demonetization.
- ➔ To study the sector wise changes in the economy.

## **HYPOTHESIS OF THE STUDY**

Hypothesis is referred as the assumptions made by an individual to study the research project. These assumptions are made in a way to satisfy the objectives framed for the project. Framing of hypothesis is an important part of the research as in this step the research problem or the problem statement is designed on which the entire research is based.

The hypothesis or the research problem of the study is designed in such manner to find out the relationship between the variables, i.e. does the effect has any impact on the other. We can also say that following hypothesis will let us know how closely they are correlated with each other. In order to study this topic 2 hypothesis are framed.

Hypothesis 1:-

Ho: There is no significant relationship between pre and post demonetization period. H1: There is significant relationship between pre and post demonetization period.

Hypothesis 2:-

Ho: There is no significant impact of money supply on Indian Economy during pre and post demonetization period.

H2: There is significant impact of money supply on Indian Economy during pre and post demonetization period.

## RESEARCH GAP

A larger number of studies have been conducted on the subject at national as well as international level. Few researchers have tried to evaluate Impact of demonetization on the Indian economy. Therefore the present study aims measure the impact of Demonetization in pre and post period and also tells us how it has affected the various fields in the economy. A pie chart explains the role of demonetization on the Indian economy in certain period of time. Research gap helps to focus on the area which is yet to be explored or is under explored. It could be (size, type, location, etc.), research method, data collection or analysis of data and other variables and conditions. It is also considered as a missing piece in research literature.

## ANALYSIS

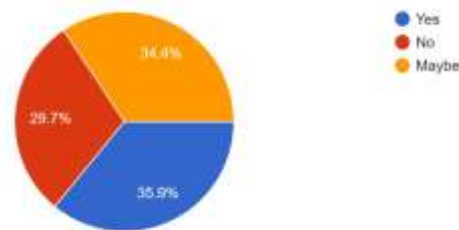
Do you know about demonetization?  
64 responses



YES	NO
92.2%	nil

The applicants were asked whether they know about demonetization, to which 92.2% applicants responded as yes. Few applicants were not aware and few were not sure.

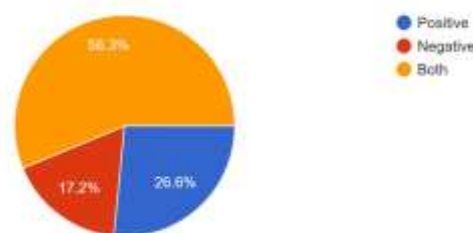
Is it the last resort to clean economy?  
64 responses



YES	NO	MAYBE
35.9%	29.7%	34.4%

Out of all the applicants, 35.9% mentioned as Yes. 34.4% mentioned as maybe. However 29.7% did not agree.

Is there a positive or negative economic impact of demonetization?  
64 responses



POSITIVE	NEGATIVE	BOTH
26.6%	17.2%	56.3%

Applicants were asked whether there was a positive or a negative impact of demonetization, where only 26.6% applicants mentioned as positive impact, 17.2% mentioned as negative and majorly 56.3% applicants agreed with both positive and negative economic impact of demonetization.

## FINDINGS

➔ The data was collected from primary and secondary sources. For the only primary a survey was done online and 65 responses were collected by the researcher, whereas secondary data was

collected from multiple websites and journals.

➔ The findings of primary data were as follows:

➔ In the View of respondents it is learnt that demonetization was not only the last resort to clean economy but also had both positive and negative economic impact.

➔ Respondents have agreed that in developing countries demonetization could be favoured rather than opposing it .

➔ As per the Indian market and Society, demonetization can be favourable to reduce the corruption in India and stabilise the economy to a major extent.

➔ It was seen that the common man had to suffer due to quick implementation made by the government as there were long queues seen outside the bank for many days. However on the other hand the black was curbed through many corrupted civilians.

➔ It has also led to a digitalized India where we can see many retailers and wholesalers supporting digital money transfer and supporting the country to “go cashless”.

➔ It was a major step taken by the government of India to curb the black money and also few more steps can be taken in similar and different ways to end the corruption completely.

## **CONCLUSION**

Through the survey and data collected it is concluded that, demonetisation is a bit serious problem. The move by the government to demonetise the old denominations with the new ones has surprised the country. The move was an effort to handle the threat of illegal money, corruption, terror funding and counterfeit

currency. According to the survey, people agree that demonetisation is a good effort taken by the government of India, it would bring about a positive impact on Indian economy as it encourages the digital modes of payment such as E-wallets and apps, online transactions. It is a move towards cashless economy. Demonetization is beneficial for the economy in the medium to long term. The decision taken by the government of India was quick so some were against it. However according to the survey, majority of the applicants responded that demonetisation hasn't reduce corruption in India. And major strengths of Indians believe that demonetization will help to stabilize the economy.

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