



## A Study on Demonetization & Its Impact On Indian Economy

**Zarmin Nisar Momin**

Asst. Professor

B.N.N. College, Bhiwandi

**Charmi Ashok Gondaliya**

Asst. Professor

B.N.N. College, Bhiwandi

**Nikunj Bajoria (student)**

B.Com. (A&F)

B.N.N. College, Bhiwandi

**Neelam S. Sen**

Asst. Professor

B.N.N. College, Bhiwandi

### ABSTRACT:

On 8th November, 2016 our Prime Minister Shri Narendra Modi, announced demonetization decision. Due to that reason 87% cash is in the form of Rupees 500 and 1,000 notes i.e. 14 lakh crore (\$190 billion) was marked of no use. The reserve bank of India has withdrawn the old 500 and Rs1000 notes. People who were holding this higher value of notes were given an extended period till January 31, 2017. It was an excellent decision taken by the Prime Minister of India against Illegal bureaucrats, corrupt politicians, businessman, high class people, terrorists, smugglers, drug dealers or the black marketing people who were practicing in unlawful activities. Due to demonetization, India would turn cashless and everyone will start doing easy digital transactions, i.e. credit card, debit card, net-banking, e-transactions and much more. Demonetization will help the Income Tax Department as money will be caught so the terror funding activities couldn't occur. Demonetization will be helping to control inflation. This research article therefore, is an attempt to find out ground reality and how demonetization had impacted the different sectors of Indian Economy.

**KEYWORDS:** *Demonetization, Inflation, Digital transactions, Indian Economy.*

### INTRODUCTION:

Demonetization was the act of stripping a currency unit of its status as legal tender. The idea of demonetization was bought by the honourable prime minister of India Shri. Narendra Damodardas Modi to stop black money circulation. Demonetization was aimed at combating black money through several mechanisms. Demonetization means withdrawing the legal tender rights of any denomination of currency. It's essential to note that the impact of demonetization varied across regions and specific businesses within each sector. While some sectors faced short-term losses, others benefited from the long-term structural reforms aimed at combating corruption and black money. Due to this many illegal activities, money laundering, black money rotation, terror activities, and other unlawful sources through which income was generated. All the following activities came to an end. There were many positive and negative effects of demonetization impacting on Indian economy.

**Positive effect:** Break down of black money, Increase in Bank Deposits, Real Estate, Illegal money circulation stopped, and much more mentioned in the project.

**Negative effect:** Liquidity crisis, Decrease in GDP, Market disrupt, Consumption and other effects.



Please note that the above positive and negative effect are based on the impact caused to the Indian economy.

#### REASON'S BEHIND DEMONETIZATION:

- To tackle the circulating black money in the economy.
- To lower the cash circulation in the country (using digital payment methods).
- Fighting against the Black money, corruption, terrorism and counterfeit currency with one single decision.
- To encourage the developed and developing financial institutions.
- To address and end the fake and unwanted emerging currency.

#### **Definitions:**

“Demonetization is a drastic innovation into the economy that involves removing legal tender status of a currency”.

“Demonetization can cause chaos or a serious downturn in an economy if it goes wrong”.

“Demonetization is an act of discarding the legal tender status of a currency unit circulation”.

#### IMMEDIATE EVASION ATTEMPTS AFTER THE DEMONETIZATION:

- Converting black money into gold.
- Donations in temples and other religious places.
- Multiple bank transactions.
- Booking large number of tickets in railways and airways.
- Depositing money in the accounts of their parents, relatives and friends □ Enticing people with some percentage of money for exchange.
- Conversion into the other Assets and paying up with the liabilities. □ Cross-border smuggling.

As said, Demonetization became a masterstroke by our honourable Prime Minister Narendra Modiji.

Process to exchange the notes during the demonetization period was also a difficult task but the banks found out to be very co-operative.

Features to the new 500 and 2000 rupees note:

- The dimensions of the new 500 rupee note were 66mm × 150mm.
- The dimensions of the new 2000 rupee note were 66mm × 166mm.

The new 500 rupee note had a dominant stone gray color theme, with a portrait of Mahatma Gandhi on the front and a motif of the Red Fort on the reverse side. The new 2000 rupee note had a magenta color theme, featuring a portrait of Mahatma Gandhi on the front and a motif of the Mangalyaan spacecraft on the reverse side.

#### **Objective:**

The introduction of new currency notes, including the 500 and 2000 rupee denominations, was aimed at replacing the demonetized currency, curbing black money, countering counterfeiting, and promoting digital transactions.



### **LITERATURE REVIEW:**

1.) Guru and Shruti Kahanijow (2010), Researcher analyzed the black money income? Need for amendment in DTAA & ITEA and analyzed 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 analyses 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 govt. finances.

2.) 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 study concludes that laws should be implemented properly to curb black money in the economy.

3.) Abhani Dhara K. (2017): posts that this Demonetization is proving to be more successful than the previous two and the era is evolving and changing. People are using online banking as a mode of payment. Bank employees are giving their best to make the demonetization a successful one. Their support matters and a lot and plays a vital role. Though the demonetization 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 demonetization was a compulsory step to tackle the problem of black money, terrorism and corruption etc.

4.) Veera kumar, K. (2017): Posts 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.

### **RESEARCH METHODOLOGY:**

#### **1) OBJECTIVE:**

- 1) To understand meaning and reasons of demonetization.
- 2) To study the positive and negative impacts of demonetization.
- 3) To study the changes in pre and post demonetization period.
- 4) To understand the concept of impact on Indian economy after demonetization.

#### **2) HYPOTHESIS OF THE STUDY:**

Hypothesis is referred as the assumptions made by an individual to study the research project.

Hypothesis 1:-

H<sub>0</sub>: There is no significant relationship between pre and post demonetization period.

H<sub>1</sub>: There is a 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

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.

**3) RESEARCH GAP:**

Long-term Economic Impact.

- 1) Sectoral Analysis.
- 2) Regional Disparities.
- 3) Financial Inclusion and Digitalization.
- 4) Informal Economy Dynamics.

Above mentioned are some of the research lacks in the field of demonetization.

**4) SIGNIFICANCE OF THE RESEARCH:**

During the pre-demonetization period, RBI has come out with its annual report giving a balance sheet of demonetization implemented 21 months ago. Of Rs 15.41 lakh crore demonetized currency notes of rupees 500 and 1000 denominations, only 10,720 crore did reach to the Reserve Bank of India. This means only 0.7 percent currency notes were junked in the exercise. While announcing demonetization on November 8 in 2016, PM Narendra Modi had outlined three broad objectives to curb black money, corruption and stop terrorism. These objectives have always been debatable for the lack of accurate verifiable data. Indian economy lost 1.5 percent of GDP in terms of growth. That alone was a loss of Rs 2.25 lakh crore a year. During post demonetization RBI dividend reduced to half of the amount, and also India's money market had the overall circulation of banknotes worth Rs 17.97 lakh crore On November 4, 2016. The banned denominations constituted 86.4% of the total money in circulation. Today, according to the RBI, overall banknotes in circulation are worth Rupees 18.03 lakh crore (March 2018). This means the volume of currency in circulation is 9.9 percent more compared to March 2016-level. The above research reports were obtained through different reports based on the demonetization in India.

**5) DATA COLLECTION METHOD:**

The data collection method means the various sources from where the data has been collected by the researcher. There are several methods for data collection, especially in the surveys. For the purpose of Research, the primary data was collected through close ended questionnaire was done thoroughly and an offline survey was done by collecting responses through each one of them personally. Close ended questionnaire is the best method for data collection as uniform observations are maintained through. For the purpose of secondary data collection, the researcher has used various materials such as newspapers, websites, articles, etc. related



to the topic. The secondary sources helps to explain the review of literature of the project and helps to provide detailed information related to the topic.

6) **RESEARCH DESIGN:** A research design is the detailed print which is used by the researcher to guide a research study towards its objectives.

Research design outline for studying demonetization:

- Research Objectives.
- Literature Review.
- Conceptual Framework.
- Data Collection.
- Methodology.
- Variables and Measures.
- Sampling Strategy.
- Ethical Considerations.
- Data Analysis.
- Validity and Reliability.

All the above mentioned 10 points are the steps followed while research design

7) **LIMITATIONS TO THE STUDY:**

- Limitations of a research project arise when there are uncontrollable variables which are difficult in controlling it.
- It helps to maintain accuracy of the output.
- However, for this study only 105 responses were taken into consideration.
- The period of research was short hence the researcher was unable to gather more responses.
- The research sample size was limited.
- The applicants responded the set of questions enthusiastically.

The set of questions designed by searcher helps to derive the actual desired output for the solution.

#### **DATA ANALYSIS AND INTERPRETATION:**

##### **DO YOU KNOW ABOUT DEMONETIZATION?**

The applicants were asked whether they know about demonetization, to which 92.2% applicants responded as yes. 5.2 % applicants were not aware. 2.6 % were not sure responded as maybe.

1) **IS IT THE LAST RESOURCE TO CLEAN MONEY?**

The applicants were asked whether DEMONETIZATION is the last resource to clean money. 36% agreed with the YES, 30% agreed with NO, 34% were not sure to answer.

##### **WILL IT RESULT IN A POSITIVE OR A NEGATIVE IMPACT?**

Applicants were asked whether there was a positive or a negative impact of demonetization where, 27% mentioned it as a POSITIVE Impact, 17% mentioned it as a NEGATIVE Impact, 56% mentioned it as an EQUAL Impact.

2) **WOULD YOU BE IN FAVOUR OR OPPOSE DEMONETIZATION FOR DEVELOPING COUNTRY?**

Applicants were asked to be in Favour or Oppose Demonetization in the developing countries. 59% were in FAVOUR for the same, 41% were in OPPOSE for the same.



#### DID IT REDUCE CORRUPTION IN INDIA?

The applicants were questioned on the corruption level after the post demonetization in India and the following responses were received. 31.7% responded as YES, 36.5% responded as NO, 31.7% were not sure on the point.

#### WILL DEMONETIZATION HELP TO STABILISE ECONOMY?

As per the responses received, on the above questionnaire, 38.1% applicants mentioned as Maybe, 34.9% applicants responded as No, 27% applicants agreed to it.

#### CAN DEMONETIZATION BE IMPLEMENTED IN BETTER WAYS?

As per the responses received from the applicants, 64% responded to the YES, 11% responded to the NO, 25% responded to the MAYBE.

#### WAS DEMONETIZATION A RIGHT STEP BY GOVERNMENT OF INDIA TO CURB THE BLACK MONEY?

Out of all the responses received from different source, It has been observed that, 40% responded as YES, 21% responded as NO, 39% were not sure responded as MAYBE.

#### DO YOU SUPPORT THE DIGITALIZE INDIA CONCEPT?

The following responses were received from the people. YES at a 92.1%. No at a 7.9%.

#### 3) HAD DEMONETIZATION AFFECTED THE RETAIL SECTOR?

The following responses were received.

71% received as YES, 22% received as No, 7% were not sure responded as MAYBE.

### **FINDINGS**

The data was collected from primary and secondary sources. For the only primary a survey was done online and 105 responses were collected by the researcher, whereas secondary data was collected from multiple websites and journals. 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's per the Indian market and Society, demonetization can be favourable to reduce the corruption in India and stabilize 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. 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, demonetization is a bit serious problem. The move by the government to demonetize 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 demonetization 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 demonetization hasn't reduce



corruption in India and major strengths of Indians believe that demonetization will help to stabilize the economy.

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