IMPACT OF DEMONETIZATION ON INDIAN ECONOMY

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Abstract:

The Prime Minister of of India announced the withdrawal of Rs.500 and Rs.1000 currency notes as legal tender with effect from midnight November 8,2018. As a result 23 billion currency notes became junk. It means currency circulation in the country came down by 86%. Life of the public became a challenge. Entire things, commercial activities rather our country on the whole got paralyzed. I have taken up this Research Study to analyze & understand better its impacts on our economy.

Key words: Demonetization, Black money, Government, Cashless economy.

1. Intrduction:

1.1 Rationale of the research

In order to know the positive and negative impacts of demonetization on Indian eeconomy and business.

In order to know the conditions of all classes of people of India

In order to know how did it affect the daily routine of Indians and related functioning

In order to know whether it was good or bad for our country.

In order to know the opinions and reactions of Indian businessmen, economists, politicians and financial experts.

1.2 Scope of the Research

This research will help the citizens and businessmen to know the basic impacts on their daily transactions.

It will give information sabot the changes in financial functioning of financial functioning of various sectors like Banking, Revenue department, Direct and Indirect taxes department.

This research will investigate the extent of recovery of black money that existed in Indian economy.

2. Literature Review:

2.1 Meaning of demonetization

Demonetization means banning the circulation of currency notes ie taking

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out of certain currency notes by any government. It is one of the biggest and most critical steep taken by any by any government for the recovery of black money.

Any government formulates financial strategies and policies for the economic growth of the country. Most of the times when unaccented money generated through illegal trade or unauthorized funding of which sources of income are not known to the government is termed as black money. To remove this black money out of circulation ,the government takes steps like demonetization so that the money holders are forced to deposit such money to the banks or loose their wealth.

2.2 Definitions of demonetization

Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency (Investopedia,2017)

Demonetization refers to an economic policy where a certain currency unit ceases to be recognized as a form of legal tender (Important India,2017)

Demonetization means withdrawal of a particular form of currency from circulation (Businessdictionary,2017)

2.3 Other studies on 'Demonetization'

Article # 1

Wade Shepard (2017) , Forbes asserts that due to this cash crunch, India grounded to a halt. Business shutdown ,farmers could't , buy seeds ,taxi and rickshaw did;t had any way to get income, employers had no way to pay their employees, hospitals were refusing patients who had only old notes, many family had difficulty buying food and weddings through out the country were cancelled.

Article # 2 - Impact of Demonetization on Indian Society

We shall see a great impact of this move of the govt. on Indian society and and economy. The first impact wil be that people will have lower expenditure power , with that they will not be able to buy luxurious things. There shall be no ostentatious expenditures on marriages and other ceremonies. So the society will grow lesser materialistic and people more prudent. With the fake money destr0yed, Indian economy society will see a big boom and the so-far booming-real-estate-sector shall on the ground. The things may be cheaper. Indian Currency may get respect at the international market. There may be a great check on the terror-related funding and therefore on terrorist activities. Corruption shall be down to a great extent as people will stop the tendency of accumulating money using wrong means.

This big move will certainly a bridge the gap between the haves and the have-nots. However, there may be some difficulties for a couple of months. But this inconvenience shall be temporary and for short-term." (Gupta, V., 2016)

Article # 3 - 'Demonetization was a despotic act' said Amartya Sen (Nobel prize winner Indian Economist)

"The demonetization of currency was a despotic act as the government broke the promise of compensation that comes with a promissory note.""Demonetization goes against trust. It undermines the trust of entire economy,"

"Only an authoritarian government can calmly cause such misery to the people - with millions of innocent people being deprived of their money and being subjected to suffering, inconvenience and indignity in trying to get their own money back." (Sen, A., 20170)

Article # 4 - "The biggest wild card in all of this, of course, is demonetization." Said Kartik Hosanagar (A professor in Wharton's department of operations, information and decisions)

The year 2017 has overall been "a good year" for India. But the biggest wild card is Demonetization. It is unclear how it will play out. But any impact on economic activity and GDP will be temporary, and the long term benefits such as an increase in cashless activity will be more permanent. (Hosanagar, K., 2017)

Article # 5

'Not a single macro economist thinks note ban was a good idea' Gita Gopinath 2017 (Chief economic adviser ,IMF)

Demonetization was not a good idea and the time should have been utilized to fine tune the GST before it was introduced. The implementation has been disruptive, which make me wish they had't done demonetization is then you could have used that time to have brought in GST smoothly.

Article # 6

'India's economic growth held back due to demonetization' Raghuram Rajan, 2018 (ex RBI governer), iNdia cant work from the centre India works when you have many people taking of the burden. And today the central government is exclusively centralized. Asserting that the current 7% growth rate is not enough to meet the country need.

Addressing an audience at the University of California in Berkley, he said for four years 2012 to 2016 – india was growing at a faster phase before it was hit by this major headwins.

3. Definition of Problem:

As per my research these contents are concerned:

❖ Most of the research made till now by the different authors, paper presenters is focused on the economic aspects and financial aspects. The discussion made with respect to the concern of society, problems faced by the society during demonetization are published to some extent.

- Looking on these researches, the questions raised to my mind are as follows:

  1) What about the people who suffered and died due to demonetization in India?

  2) What is the cost recovery for the death of each person died?

  3) What is loss to the economy of our country due to the death of approximately 90 people (among 90 people 8 to 11 boys and girls aged below 20years)?

  4) What monitory benefits will be appropriate to fill the gap of family member of a diseased people?

- The same kind of many other questions can be raised to the government of our country and the rationale people of India.

- The people who died during the time of demonetization could have been wealth of our nation; they could have brought lot of changes in backward area of our country as well as they could have been the businessman, political leaders, and economist.

- People died because of standing in the long ques without any basic facilities to change the notes, few of them died because of the delay in the medical attention in the hospital because they could not change the currency on time and they had no other option.

4. Research methodology

The exploratory research was conducted to know the in depth knowledge about the impact of demonetization in India and its effects. This research was very helpful to analyse the required information with the help of few samples drawn.

4.1 Sources of information

Primary data and secondary data was collected.

Primary source was sample survey

Secondary data was collected with the help of online articles and different opinions of rationale people working in the area of study in their respective working environment commented in the social Medias.

4.2 Sample size:

30 People

4.3 Sampling unit: State of Bihar

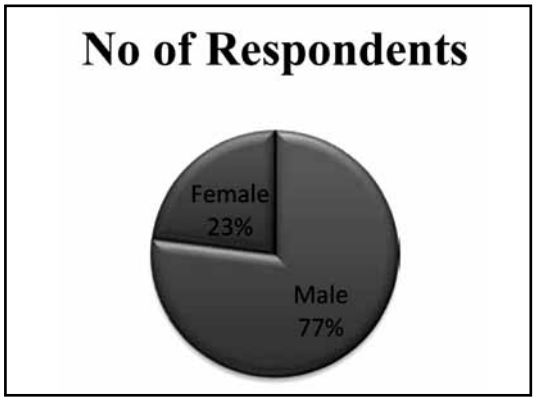
4.4 Sampling technique: Convenience sampling

5. Analysis of Research

This survey was conducted with the help of 30 people. The further information is based on the same proportion i.e 30 people (100%).

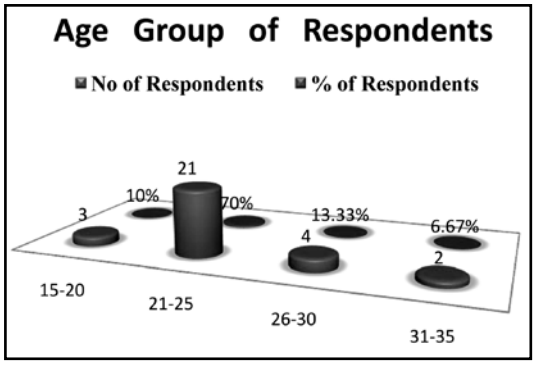
5.1 Arithmetical / Demographical analysis

1. **Gender:**



- Important demographic element is gender.
- As per this survey the total no. of respondents are 30, therefore 23 are male and 7 female.
- In terms of percentage it is 77% of male and 23% of female.

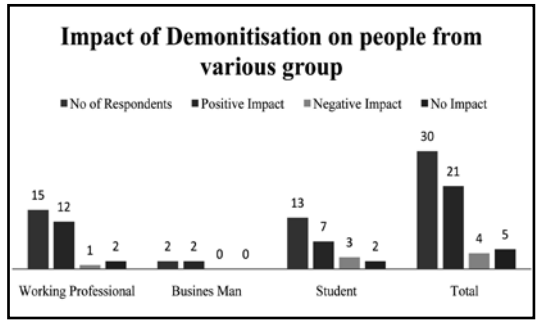
2. Age Group



Age group is second demographical element for this survey.

- The age group is divided into 4 different classes such as 15-20 years, 26-30years and 31-35 years.
- The lowest no of respondents are between the age group of 31-35years that is 6.67% and the highest group of respondents are in the age between 21-25years which is 70% this shows that the age group between 21-25 years are the respondents who is given more interest to give their opinion in this survey.

5.3 The Impact of Demonetization on

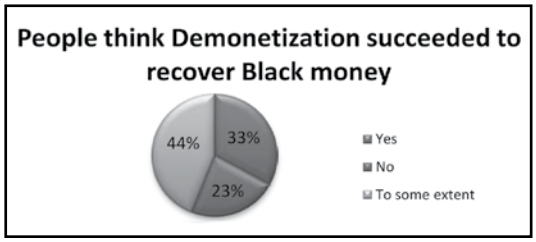


People From various Occupations:

- As per this survey I have asked 2 questions to the respondents firstly what is your occupation? Secondly what is the impact of demonetization on their daily financial needs? In order to know the problems faced by the respondents towards their daily financial transactions from various occupation.
- From the above bar chart drawn we can conclude that out of 15 respondents' i.e working professionals 12 thinks that the effect is positive to the country and only 2 thinks as there is no impact for the people in their financial transaction.

❖ If we focus on the total analysis of this research out of 30 respondents of different professions only 21 respondents thinks that there is a positive response on the demonetization and 4 thinks as there is a negative impact and depending on these scenario 5 of the respondent replies as there is no effect on their financial transactions.

5.4 People think Demonetization has succeeded to recover Black money:



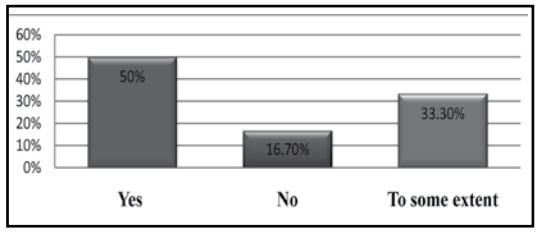
As per the above chart it shows that the 33% of respondents think as demonetization is succeeded in order to recover the black money.

➢ The 44% of respondents says that the black money is recovered to some extent and only few i.e 23% people agrees as it has not succeeded to recover the black money with the help of demonetization..

➢ As per this study we can conclude that to some extent black money is recovered by demonetization..

➢ The initiative of government is to recover the black money is supported by the people without their struggle it would have not been possible.

5.5 People think Indian Economy Improved due to various decisions of the current government:



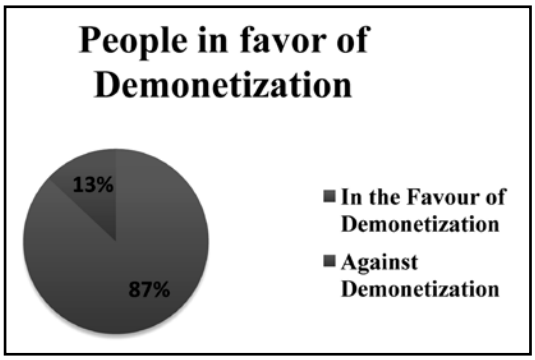
As per the above bar chart shows the responses to the question asked to the respondents "Do you think Indian Economy has improved due the various decisions of the contemporary government?"

- The 50% of people replied as the Indian economy has improved because of the decision taken by the government.
- The 30% of people thinks that the economy of India is improved due to some extent and 16.70% people replied as the Indian economy has not improved.
- The positive response is far more when it is compared with the negative response.

5.6 No of people in favor of Demonetization:

The important and precise question of my survey to the people is "Are you in the favor of Demonetization?"

➢ The above chart is an answer to the question that 87% of the people are



in the favor of decision taken by the government of India and 13% of the people are against the decision taken by the government.

- From these responses it can be concluded as the numbers of optimistic people are far more than the pessimistic people about the decision taken on the demonetization.

6. Findings of my Research

- From this research it is found as the people are more interested to bring the growth and progress in India as a whole apart from their growth.
- Respondent think as it is an effect step taken by the government of India to stop this circulation of black money from Indian economy.
- All kinds of rationale people of India are more focused on the financial growth and development of Indian economy and forgetting the socio economic effect of the same.
- The socio economic effect hereby means most of the people died due the change of currency includes young boys and girls who could have been the wealth for our nation by paying tax of India and the could have contributed to the Gross Domestic Product of the country if they were alive.
- Nowadays people need easy way of transaction support that is rather then physical they more fond of electronic transactions and they find the electronic transaction is time saving.
- After facing lot of trouble by standing in front of bank in long queues, non availability of new of currency in bank, non co operation of bank staff was the toughest task etc. during the time of demonetization most of the people are in favor of demonetization
- When the demonetization put into application from 9th November 2016 and was announce on 8th November 2016 to exchange the old currency note by people with the new one till 30th December 2016 many people suffered a lot from this announcement and it became routine to the people to think on ideas to exchange the currency.

7. Conclusion

❖ From this research it is concluded as the Indians are the people who has more tolerant in case of the application of new changes directed by the government of India. During the demonetization people have protested in the beginning but after 10 to 15 days all have accepted

the fact that they should have to follow the decision of the government in order to contribute to the corruption had black money free country.

❖ If we look on to the opinion of some of the well known economist of India, according to them the demonetization is the biggest blunder of government of India, even though it does not seem like one of the main focus of India is to work things on cashless transactions which is achieved to some greater extent as well as black money is also recovered to some extent that is somewhere nearby fifteen lakh crore in old currency notes which are deposited even after not knowing how much of the money from this is black money, it was a very largest money deposited in the history of India.

❖ The success of change in old currency is only because of patient of Indian people, Bank staff and all concerned, this would have been not possible without the support of all. So it is not in the credit of government only.

8. Recommendation

- In the history of our country demonetization is not for the first time it had also taken into effect during 1946 and 1978 also, therefore there is no new implementation by the government to develop our country as it has been practiced before also.
- Our country always takes an effort to initiate the changes for the welfare of Indians and Indian economy. It is very easy to put an effort from the government but it is not possible without the support of the people of India, hear co operation of our citizens played an important role to bring changes in the country. Therefore it is mandatory for the government to obey the promise that they have made to the public.
- The critics of changes should stop criticizing and blaming the Indian government for their decision. It will be better if they give suggestions to fix the problems they think that has risen due to demonetization.
- Our government should formulate some of the policies to help n number of diseased people who lost their lives due to demonetization directly or indirectly.
- Government should make proper planning in order to handle the impact of these kinds of decisions which are implemented for which they should formulate a special committee which consist of experts to look on to the various sectors.
- Government should also publish the changes occurred after the demonetization so that the people can understand where is our country standing after the demonetization as well what improvement have been taken after their struggle.

9. Limitations

- The graphical area for the study is only one state that is Gujarat.
- The sample size of this research is also limited to 30 people only to make it convenient to fill the sample for this research.
- This data was not collected to through face to face interaction, it was through an electronic way.
- The kind of sampling technique used for this survey is convenient sampling which one of the type of non probability sampling.

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