
IMPACT OF DEMONETIZATION IN INDIAN ECONOMY

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ABSTRACT

A decision taken on 8th November by the Prime Minister of India has made every citizen of India into panic attack. An unknown demonetization of Rs 500 and 1000 Rs note happened at late night. The late night demonetization has not given chance to people to manage black money they possess. Demonetization has shown comparative positive results in the economy. A study was framed to see the impact of demonetization in the working of the economy. A structured questionnaire was developed to meet the objective and result hypothesis. A sample of 250 was collected from the population of Udaipur with the help of Google Forms. Further to perform analysis SPSS V24 was used. The test like Reliability, correlation and regression are being performed to come to conclusion. The conclusion stated that demonetization has reduced the black money and fake currency from the economy. It has helped in reducing the corruption and illegal activities.

Keywords: Demonetization, Corruption, Black Money, Fake currency.

INTRODUCTION

8 November, 2016 is a memorable day for every Indian citizen. On that day Government of India has announced demonetization. The demonetization was done for all 1 series note of Mahatma Ghandi. Government has taken a step to reduce shadow economy and crack down on the usage of illicit and counterfeit cash for funding terrorism. A sudden announcement of demonetization has created a shortage of the cash and entire economy was threatened for the output. Prime Minister of India Narendra Modi announces the demonetization at 20.00 IST and declared that the currency of 500 and 1000 would not be used as a means of exchange. In order to maintain a flow of fund in an economy, a new currency note of 500 and 2000 were issued in exchange of old notes. The demonization resulted in reduction of corruption and illegal activities, black money and black currency, fake currency from the economy. The demonetization was drive to clean the economy from black money and in Indian history it is best drive which will benefit the economy till long run. Demonetization can be stated as a process of stripping of the currency as legal tender. It process of pulling the current currency from the market and to being new notes or coins in circulation. Depending upon the need of the country come takes a decision whether they want to replace entire currency or some series of currency.

Demonetization has not only affected the flow of currency in the market but effect of that was seen on BSE SENSEX and NIFTY too. The stock market has seen a fall over 6 percent at the day of demonetization. Demonetization has made people to stand in queues to change their notes and many cases of death were seen due to accidents. The move of demonetization was not a planned move which leads to strike, litigation etc. The move has reduced the production and GDP of the economy.

According to RBI data the number of old currency was almost 13 lakh crore rupees till 10 December, 2016 whereas 592616 crore rupees new notes was issued to the public between 10th November -19th December. In order to meet the demand of the demand of currency in market RBI has issued 22.6 billion pieces of notes among them 20.1 billion notes was of denomination of 10,20,50 and 100 and 1.7 billion of high denomination 500 and 2000. The difference between inflow and outflow was 707387 crore which cause cash crunch which affected the business, day to day life across the nation. Demonetization has helped to come up with the problem like corruption, fake currency, black money etc.

Review of Literature:-Demonetization in World

The concept of demonetization has come years back. Many countries have demonetized their currency with different mottos. In year 1984 government of MuhammaduBuhari in Nigeria banned old currency and issues the new currency. It has made the country debt ridden and inflation hit the country. It has collapsed the entire economy. In 1982 demonetization occurred in Ghana of 50 cedis note. The ban of the note was done to remove excess liquidity from the market and to handle the tax evasion but it acted as a fail. It backslides to black market and people invested the liquid money in physical assets which made economy weak. A demonetization happened in Pakistan in year 2016 to issue new design in currency notes. It was a planned demonetization where people got a year and half back to exchange a currency and have new notes. A decision of president of Zimbabwe, Robert Mugabe has the entire economy to move back. An order was pass to ban \$100,000,000,000,000 note (one hundred trillion dollar note). After the order made by the

president the value of trillion dollar has gone to \$0.5 dollar. A demonetization in Myanmar has leads to protest and several killing. In 1987 demonetization took place to check the black money in the Myanmar economy. Soviet Union under the governance of Mikhail Gorbachev, 1991 took a decision of demonetization which lead to takeover of Mikhail's leadership within eight month of demonetization. In year 2010, the economy of North Korea was broken-down because of the demonetization. People were starving for their basic necessities.

Demonetization in India contest

The Prime Minister Narendra Modi was not the first person who has announced demonetization. Many demonizations have happened in an Indian Economy before 2016. The first demonization was done in year 1946, which removed the notes of RS 1000 and Rs 10000. It has not shown much influence on the economy as notes of higher denominator was not used by mango people. The notes of Rs 1000 and Rs 10000 were renewed in year 1954 and in addition to that Rs 5000 currency was also introduced. Back to back demonetization happens in year 1946 and 1978. The first note of RS 500 and Rs 1000 was introduced in year 1934 and after four years a note of RS 10000 notes was launched in the market. The second demonetization happened in year 1978 by Prime Minister India Morarji Desai. The motto behind the demonetization was to remove the black money from the country. It banned the 1000,500 and 10000 currency. There is resemblance between the ban happen in 1978 and 2016, both was done to control the black money in country. The high denomination notes were banned in both the years and it was not opened before announced on broadcast. An announcement of the demonetization has given panic attack to the millions of India as notes of 500 and 1000 would be banned and new notes of 500 and 2000 would be issued shortly.

OBJECTIVE

- To study the concept of demonetization and with contest of India era.
- To study the awareness of the demonetization among the respondent
- To study the effect of demonetization on economy.
- To study the demographic variable of the respondent.

LIMITATIONS OF THE STUDY

1. The demonetization of the India was only studied by the researcher.

Study is limited to the Demonetization in India only.

2. Study is limited to Udaipur only.
3. The data analysis was done on the basis of the respondent.
4. It can be biased

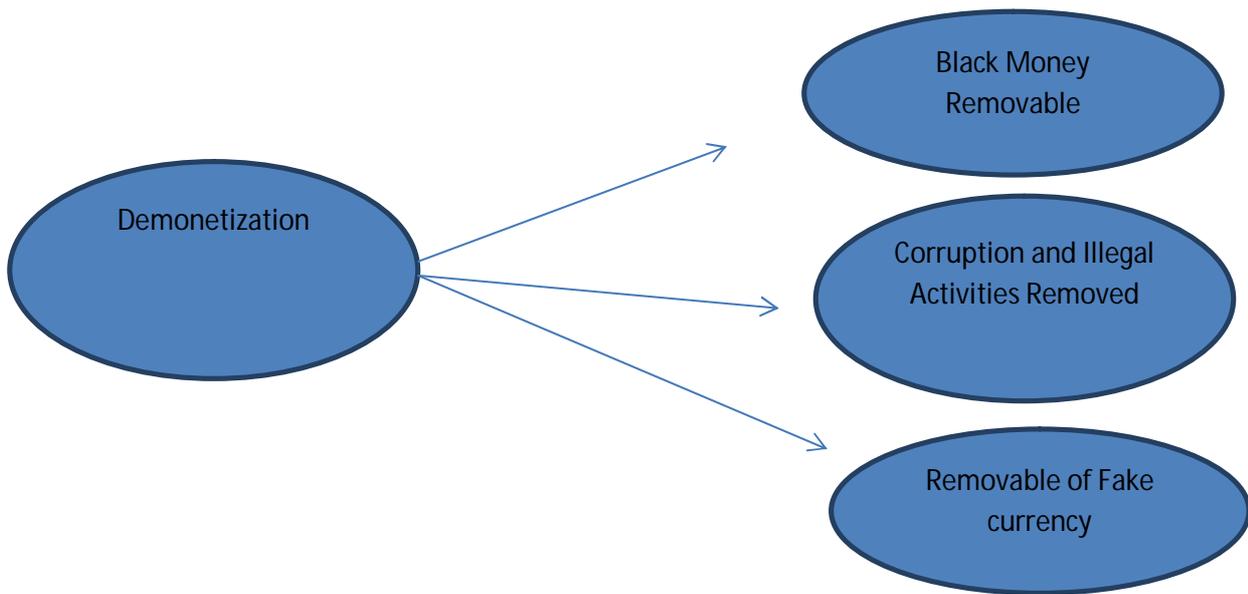
SCOPE OF STUDY

The demonetization was done by government to takes measures for illegal funding, black money, fake currency, tax evasion etc. Some citizen came up with the excess then the limit amount which has made them to pay higher tax for hiding the money and not paying the right amount of tax. The government has a motive to reduce corruption, illegal activities and emphasis on the cashless economy. During the time of demonetization, a promotion was done for using E payment as there was scarcity of hard cash. It has moves an economy to cashless economy and where it was a good move to make an economy a cashless. The researcher has tried to find out the effect of cashless economy among the people Udaipur.

RESEARCH METHODOLOGY

The research was done on the data collected from the 250 respondent from Udaipur region. A structured questionnaire was developed to analyses the hypothesis. The researcher has used both primary and secondary data to prove the hypothesis. The study is conducted to know the effect of demonetization on Indian economy. Demonetization has helped the economy in certain ways. A concept model was framed to see the effect of demonetization in Indian Economy. The demonetization is a dependent variable and there are five independent variables. A model is being shown in Figure 1

Conceptual Model



*Demonetization– Dependent Variable

** Fake Currency, Corruption and Illegal Activities, Black Money- Independent variable

Hypothesis:

H01: Demonetization has a positive impact on economy.

Sample and Measurement Scale

Research has scale the questionnaire on the Likert five scale containing Strongly Agree to Strongly Disagree. The response was collected form the population of Udaipur between age group 20 to 60 and above. The responses has been collected with the help of Google forms. Various SPSS tools like correlation, regression; Annova is being used to analyze the data.

DATA ANALYSIS:

• **Reliability Test of Data:**

To order to understand the effect of demonetization on the Indian Economy, reliability test is applied. The reliability test is done to know whether the data is reliable to perform various statistical analyses. In year 1967 Nunnally has given certain law for testing the reliability of the data. Table 2 contains the results of Reliability.

Table 2: Results of Cronbach’s Alpha.

Independent Variables	Cronbach’s alpha Coefficient
Black money removable	0.806
Corruption Removable	0.712
Fake money	0.700

The above factors have meets the standard criteria of measuring the reliability. The individual factor Cronbach Alpha value is greater than .70 and overall reliability is also greater than .70 which means data is reliable to perform various other analyses.

• **Correlation Analysis:**

Researcher has studied the correlation between dependent variable and independent variable. The below table shows the correction between Demonetization and Black money, corruption and Illegal Activities and fake currency.

Table 3 Correlations between Dependent Variable and Independent Variable.

Pearson Correlation		Demonetization	Black money	Corruption and Illegal activities	Fake Currency
	Demonetization	1.000	.349	.205	.235
Black money	.349	1.000	.502	.547	
Corruption and	.205	.502	1.000	.673	

	Illegal activities				
	Fake Currency	.235	.547	.673	1.000

The table number 3 shows the Karl Pearson Correlation and it states that r value should be greater than p value and is significance at 0.01 level (2 tail test). The table evidence there is a positive correlation between various independent variable and satisfaction of the customer.

• **Regression Analysis**

The correlation has shown the positive relation between Dependent variable and Independent variable. The next step is to develop a regression model between the variables. Table 4 states the regression.

Table 4: Result of the Regression Analysis showing the Impact of demonetization on Independent variable.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1 Black Money	.349 ^a	.122	.118	.32257	.122	34.323	1	248	.000
2 Corruption and Illegal Activities	.350 ^b	.123	.116	.32300	.001	.334	1	247	.564
3 Fake Currency	.353 ^c	.124	.114	.32335	.002	.464	1	246	.497
a. Predictors: (Constant), VAR00006									
b. Predictors: (Constant), VAR00006, VAR00008									
c. Predictors: (Constant), VAR00006, VAR00008, VAR00009									

Table: 5 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
1	Demonetization	.910	.044		20.828	.000
	Black Money	.122	.021	.349	5.859	.000
2	Demonetization	.899	.048		18.863	.000
	Black Money	.115	.024	.329	4.770	.000
	Corruption and Illegal Activities	.013	.022	.040	.578	.564
3	Demonetization	.890	.049		18.056	.000
	Black Money	.110	.026	.312	4.280	.000
	Corruption and Illegal Activities	.003	.026	.009	.107	.914
	Fake Currency	.020	.030	.058	.681	.497
a. Dependent Variable: Demonetization						

As per the result we can analyze that all the bi variate correlation R value is greater than 0.200 which shows that there is a moderate relation between various independent variable and demonetization. The coefficient table 5 states that demonetization has leads to reduction of black money, fake currency and corruption and illegal activities. Demonetization has helped the economy from unethical activities.

The below table 6 has showed the demographic variables of the respondent. It contains mean deviation and standard deviation to explain the variables like age, gender, awareness of demonetization etc.

Table: 6 Descriptive Analyses of the Data

	N Statistic	Minimum Statistic	Maximum Statistic	Mean Statistic	Std. Deviation Statistic	Skewness	
						Statistic	Std. Error
Age	250	1.00	4.00	1.9560	.66621	.378	.154
Gender	250	1.00	2.00	1.4880	.50086	.048	.154
Awareness of Demonetization	250	1.00	2.00	1.1640	.37102	1.826	.154
Valid N (listwise)	250						

The demographic variables have an impact on successful implementation of demonetization. People are highly aware about the demonetization and they had knowledge how to exchange the currency with the banks to have new notes. The awareness could be because of the literacy and the campaign and assistance provide by the bank to perform the exchange task.

CONCLUSION:

Researcher has proved that hypothesis that demonetization has led to decrease in black money, fake currency and also helped in reduction of illegal activities and corruption. The action taken by the government was not huge impact but still it benefitted the economy. The demonetization has given a rise to cashless economy. People were diverted from the hard cash to cashless transaction. The cashless economy will gradually reduce the corruption from the economy. The activeness of the bank to spread the literacy about the banking transaction will reduce the corruption. Hence it is concluded that demonetization has a positive impact in the economy.

SUGGESTIONS:

In order to promote cashless and corruption free economy, government should incorporate following suggestion.

1. Create a literacy for banks and banking transaction. They should be motivated to see debit card and other online payment option to do day to day transaction.
2. In order to make strong economy government should print more currency of small denomination like Rs 10,20,50 so proper flow of currency is maintained in an economy.
3. Government should monitor the supply of currency at banks in both rural and urban areas. Bank should provide easy and reachable assess of ATMs to customer in rural as well as urban area.
4. Government and bank should plan the strategy of mobile ATM at offices of public, private and corporate sector where employees are more than 25 in number.