

Consequences of Demonetization on Households: A Case Study on East Delhi

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ABSTRACT

Demonetization of a Currency is a monetary step in which a particular unit of currency is declared invalid. Demonetization becomes necessary when demerits of old currency exceed its merits. That is why old currency is replaced by new one. It affects economy in both way positively as well as negatively. Declaration of Demonization of 500 and 1000 Rupee note on 8 Nov 2016 by Prime minister of India had shaken the Indian economy. The present study is an attempt to know about the impact of Demonization on Households. The present study also elucidates the impact of such a move on black money and highlights the immediate effects on the economy.

Keywords: Demonetization, Effects, Impact, Black Money, Households.

INTRODUCTION:

When a currency unit loses its legal tender status, this act is known as Demonetization. It occurs whenever to make the change in National Currency becomes indispensable. As per dictionary Demonetization means “ending something”. It involves to divest a monetary standard or to withdraw money from use. Under this the current currency is totally withdrawn from the market. It also involves a process of moving people from a cash based system to Digital Banking.

The main Social and Economic reasons for any Economy to Demonetize the Currency are:-It helps in reducing Inflation, to change the Financial status of People, to remove Fake Currency from the market, to reduce Illegal Activities, to tackle corruption, to encourage Digital Payments. in any economy. India has to find the solution of problems like this for its overall Economic Growth and Economic development.

The Reverse of demonetization is called as “Remonetization” in which a commodity is restored (Such as Silver or coins or bank notes) which helps in growth and development of an Economy. In this the value of currency is reinstated and is recognized as a medium of Exchange. It also helps in upliftment of an Economy.

The Central bank of any Economy acts as a monetary authority for issuing of a currency or any Legal Tender. Every economy has its own national currency through which all Financial transactions are transacted For Example Swiss franc is the national currency of Switzerland or Yen is Japan’s National Currency. Euro, is currency for a group of European countries called European Union. Indian currency is called the Indian Rupees (INR). In most of the cases, the Central Bank of a country has the absolute right to issue money or the currency for circulation.

LITERATURE REVIEW:

Singh B.& N. Babitha (January 2017) in their research paper threw the light on the effects of demonetization in terms of “Won or lost”. In their study, Secondary data was analyzed and efforts were made to explain the concept of paperless economy by taking the reference of Woodford (2003). This paper emphasized the effect of demonetization in the areas like, cash rush, stock market, transportation, agriculture, banking, business, income tax, railways etc. According to the Centre for Monitoring the Indian Economy (CMIE), the transaction cost of demonetization until 30th December, 2016 was estimated around Rs. 1.28 lakh crore. As per R. Gandhi, Deputy Governor of RBI, speaking on 7th December 2016, Rs. 11.5 lakh crore has been already deposited at bank out

of total 14.5 lakh crore which means still 3 lakh crore are unidentified. Though there are no exact proofs of exact black money holding in cash but studies show that around 8% of black money is held in cash.

M. Angel Jasmine (February, 2017) about the "Impact of Demonetization in India" in her research paper. The Reserach paper was divided into two parts, in first part the impact of demonization on Indian economy was explained. As per the research, the BSE SENSEX and NIFTY 50 stock had been fall near about 6% on the very next day. Moreover on the later on days, the country felt severe shortage of the cash. Moreover due to lack of cash overall production had decreased. Banks had not enough new currency for the exchange of the old notes, which breakdown the overall economic system. Moreover in the paper impact of the demonetization over world economy also shown. The first thing that happened after demonetization was decrement in to overall consumption of commodities which results in to decrease in the export-import. Moreover there was a major impact over the domestic sectors, reduction in the Government liability, farming and fishing industry, business, drop in industrial output, black money, impact over counterfeit currency, hawala, bank deposits, jewellery an real estate, IT sector etc. Findings in this sectors says that, though demonetization is a good concept to grab theblack money holders, most of black money is kept in form of land, gold, real estate etc. "Not all black money isin cash, not all cash is black money". People face too much inconveniency due to improper planning aboutpostdemonetization. Moreover for number of days they had spent their time by standing in queues. To decline overall negative impact of it, ways are to focusing over tax aspect, cash availability, and elimination of loopholes.

Mukhrjee et al. (November 2016) studied the impact of Demonization by the present government on the credit availability, government finance, spending and levels of various activities. They stated that in a very short period there would be more serious affect on people earning income in hard cash as well as spending in cash while impact will be up to a lesser extent on those earnings in non-cash form but spending in cash. Each sector backing demand by cash along with the real sector especially the unorganized one will much adversely effected in very short run time. In case of short term effect having complete replacement, an immense strengthening of informal sector credit market would be seen in the rural market and there would be adverse affect on construction sector. The medium term impact would produce results in terms of enhancements in deposits in the economy.

Banerjee &Chatterjee (2016).in their blog has pen down the impact of demonetization on Indian Automobile Industry specially cars. The major factor like non Digital transactions have been considered to be harder hit for the sale of car. The impact results that Customers have fear in their minds in inventory piling issue, and regarding everyday changing government norms for possession of wealth and assets.

Singh (2016), The demonetization of rupees 500 and rupees 1000 notes was quite a surprise for the entire nation and the immediate ripple effect of this on the automotive industry was a DIP in the BSE auto index of 2.5 % On December 10, 2016. This is due to the fact that a number of potential buyers offer down payment in cash or sometimes, purchase a two wheeler with the complete cash payment.

Vora and Sahadeo (2016), Though it has been expected that the rural segment would be least impacted due to black money erosion drive as tax-exempted rural income constitutes to be a larger chunk of rural economy, cash crunch and weak consumer sentiments may hurt demand cycle, in near term as our dealer check indicates a high cash component in rural purchases. This is corroborated by HMCL and M&M witnessing 12.9% year on year & 23.5 % respectively decline in motorcycles and tractors volume in November, 2016.

Mohd. (November 2016) studied about the significance as well as challenges of demonetization of currency notes. Secondary data was used for this study collected from various newspapers as well as websites. The researcher concluded through the study made that no doubt this move was going to disturb the routine life of 'Aam Aadmi' (common man of India) influencing largely the unorganized sector including organized sector up to a limited extent but the real consequences of move will have bigger implications on the Indian economy as a whole in the long run.

Tax Research Team (2016) in their working paper has also stated the merits of demonetization. This paper shows the impact of such a move on the availability of credit, spending and level of activity and government finances.

Sunita (September 2014) in her research study attempted to get insight about the reasons as well as measures adopted by the government on demonetization that was implemented in Indian context. It was a conceptual study based on secondary sources. She concluded that the enhancing trade deficit, 1965's war between India and Pakistan, gulf war, political as well as economic stability, dwindling foreign exchange reserves, withdrawn of FII's (Foreign Institutional Investors) and strengthen of dollar were the key reasons behind the move for demonetization by the government in India and the measures adopted by the government included imposition of quantitative restrictions, provision for export subsidies, establishment of dual exchange regime, adoption of floating exchange rate system, increase in FII's limit, enhancement of ceiling up to a limited time frame, use of some proportion of borrowed funds overseas for the domestic expenditure, withdrawn of rebooking of forward

contracts post cancellation and reduction of NOOPL (Net Overnight Open Position Limit).

Deodhar (2016) visualized the concept of black money and demonetization including its form as well as the consequences and role of demonetization as a mechanism to get tackle on black money. At global level, he found out that voluntary compliance played significant role than the enforcement. To have loyalty as well as trust in the tax system among your citizens was the basic priority to be focused on. It was also recommended to have a monitoring mechanism based on risk and the other key element was the coordination among education system and revenue department along with other things. some principles were mentioned to tackle black money and those principles included removal of systematic pain leading to origination of black money at its very first place, enhance the cost for converting legitimate money into cash, systematic regulations making it easy for the participants involved in value chain to accept e-payments (electronic/online payments), implementation of mechanism to ensure safety of money for those who indulged in investing for finance black money friendly sectors, establish identity of persons as well as e-register of assets, creation of attribution chain meant for funds entering as well as exiting the country and creation of e-trails for both income as well as expenditure.

RESEARCH METHODOLOGY:

Objective of the Study:

- To examine the consequences of Demonetization on Socioeconomic factors such as Income, Age, Level of Education, size of family, Gender.

Research Hypotheses:

- H₀₁: There is no Significance Relationship between level of awareness of Demonetization and Age of the respondents.
- H₀₂: There is no Significance Relationship between Level of awareness of Demonetization and Income of the respondents.
- H₀₃: There is no Significance Relationship between Level of Awareness of Demonetization and Education level of the Respondent.
- H₀₄: There is no Significance Relationship between Level of Awareness of Demonetization and Occupation.

RESEARCH METHODOLOGY:

East Delhi Area was selected for this research. A Structured Questionnaire was developed for the collection of Primary data .50 respondents were selected randomly from the sample Area .For the purpose of analysis the data Following statistical tools were used-:

- Chi-Square Test
- Percentage Method

Research Design:

To study the impact of Demonetization on Household, Descriptive Research Method is used.

Data Collection:

Researcher has collected data through Primary method in which a structured Questionnaire was prepared.

Limitations:

- The study is limited to the selected sample of East Delhi and therefore the result of the study cannot be generalized.
- The statistical methods used to analyze the data have their own limitation.
- All the limitations of primary data are applicable to this study.

ANALYSIS AND INTERPRETATION:

Demographic Profile of the People:

Table A shows the demographic profile of the respondents for the study. Out of 50 respondents it has been seen that (52%) of the respondent are male and (48%) are females. (72%) i.e. most of the respondents lie in the age group 25 to 45 years, (60%) of the respondents are Graduate, (60%) of the respondents are engaged in Private sector and the annual income of (80%) respondents is above Rs.2,50,000, (70%) of the respondents belong to nuclear family.

See Table 1: Demographic Profile of the Respondents

Data Interpretation:

See Table 2: Relationship between the Demographic Profile of the respondents and Impact of Demonetization

DISCUSSION OF FINDINGS:

Analysis of the result in the above table shows that Occupation shows significant association with the level of awareness of Demonization (as Chi-Square value is greater than the table value).

Thus Null Hypothesis is rejected. If the calculated Chi-square value is more than the table value at five percent level, there does not exist any significant association between Gender, type of family, Age, Monthly Income and Educational Qualification of the respondents and level of impact on demonetization. Thus the null hypothesis is accepted.

The result shows that Private Employed People have significant awareness about Demonization. It means Demonization has had more effect on Private Employed salaried Class People. Self Employed people are the second in number who all are aware about the Demonization Effect.

CONCLUSION:

This demonetization is a generations' memorable experience and is going to be one of the economic events of this era. Its impact is felt by every Indian; it not only posed economic activities but also penetrated psychological fear. Sudden announcement of demonetization has resulted into insecurity and fear among the citizens of India. Though it created some problems for small vendors and households, it was for short term only and in long term it is advantageous. It seeks to bring in a sharp, sudden but long lasting behavior change that will create a digital economy and encourage the households to save money in a smart way.

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Table 1: Demographic Profile of the Respondents

Factors	Number of Respondents=50	Percentage
Gender		
Male	26	52
Female	24	48
Age (In Years)		
Upto 25	5	10
25-45	36	72
45-60	6	12
60 & Above	3	6

Factors	Number of Respondents=50	Percentage
Educational Qualification		
Upto School level	5	10
Graduate	30	60
Postgraduate	15	30
Occupation		
Public sector	3	6
Private Sector	30	60
Self employed	7	14
House wife	10	20
Monthly Income		
Less than 30k	6	12
30-50K	16	32
50K-70K	23	46
More than 70K	5	10
Annual Income		
Up to Rs.1,00,000	4	8
Rs.1,00,001 to Rs.2,50,000	6	12
More than Rs.2,50,000	40	80
Type of Family		
Nuclear	35	70
Joint Family	15	30

Table 2: Relationship Between the Demographic Profile of the Respondents and Impact of Demonetization

Variables	Level of Awareness			Total	χ^2 Value	Table value	remarks
	Hiigh	Mod	Low				
Sex				50	1.510	5.991	NS
Male	4	14	5	23			
Female	8	12	7	27			
Age							
Up to 25	2	3	2	7	9.277	16.919	NS
26 to 45	7	17	3	27			
46-60	3	4	5	12			
60 Above	0	4	1	5			
Educational Qualification							
Up to School Level	0	2	0	2	7.870	16.919	NS
Graduate	4	10	3	17			
PG	6	10	5	21			
Others	2	4	4	10			
Occupation							
Business	4	2	3	9	16.578	16.919	S
Private Employee	3	15	3	21			
Public Employee	2	2	2	6			
Others	3	7	4	14			
Monthly Income							
UPTO 30K	5	14	3	22	8.754	12.592	NS
30K-50K	2	9	6	17			
51K-70K	3	2	1	6			
More than 70K	2	1	2	5			
Type of Family							
Joint family	6	10	6	22	1.299	5.991	NS
Nuclear	6	16	6	28			

*significant at 5% percent level
