

AN EMPIRICAL ANALYSIS TO STUDY THE IMPACT OF DEMONETISATION ON PEOPLE

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Abstract

After the decision of withdrawal of Rs. 500 and Rs. 1000 notes from the economy by the Indian government it was noticed that the decision has impacted the general mass heavily and in various ways. There are various factors which were impacted during and after demonetisation. It became very important to learn that on which factor there was the major impact of such a decision. The study focused on the factors namely real estate, gold rates, stock exchange, eradication of black money and illegal activities, reduction in the level of corruption, use of electronic medium for making payments which were impacted. In order to assess which factor impacted the most, mean value of each factor was computed and each factor was ranked according to the degree to which it was impacted. We found that due to demonetization, electronic modes of payment were accepted more to fight with the situation and to fulfil their daily routine requirement of short term cash and capital, reduction in corruption and illegal activities being the last making it an area of concern for all. In addition to this chi-square test was also done to check the association between the demographic profile and the level of impact on demonetization.

Keyword: Demonetization, Black money, Digitalization

Introduction

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: The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins.

It's been more than a year since India's demonetization initiative, while some of us think it's to fight corruption while others argue that it was being done to help turn the black money into white money. Everyone has their own opinion on this initiative taken by India's Prime Minister Narendra Modi.

There are multiple reasons why nations demonetize their local currency. Some reasons include to combat inflation, to discourage a cash system and in our country's case, to combat corruption. At least that it was supposed to do. The process can be carried out in two ways:

1. Introduce new notes or coins of the same currency *Or*
2. Completely replace the old currency with new currency.

The Indian government chose to demonetize the 500 and 1000 rupee notes, the two biggest denomination notes. These notes have accounted 86% of the country's cash supply. According to the government, the main goal was to get rid of counterfeit currency, fight tax evasion, eliminate black money and terrorist financing activities, and promote a cashless economy. In last few days there has been quite a lot of debate on demonetization- one of the biggest criticisms being that the implementation has been quite poor and has caused a lot of inconvenience to the common man.

In order to understand the impact of demonetization a study was conducted in Ahmedabad district with a sample size of 218 respondents. The study focuses on analysing the relationship between the demographic factors and the level of impact of demonetization and also the impact of various factors on demonetization.

Literature Review

Syamsundar Palanisamy and Sabariga E. (January 2017) did a comparative study with special reference to India. They concluded that demonetization was altogether a different ball game while it is compared with the other economic reforms initiatives by the governments to restore or to replenish the economy from being ruined by the black money and tax evasion. Demonetization seems to be a bitter pill and through the various historical evidences it is clear that the management of the crisis after the demonetization plays a vital role in ensuring the success of it.

K. Veerakumar (2017) studied the impact of demonetization on people. She concluded that the demonetization of the highest denomination note undertaken by the government was a big shock to the Indians. The demonetization is taken for several measures such as tax evasion, counterfeit currency and funding of illegal activities into bank accounts has showed the unaccounted income, subject to higher tax and other penalties. Alternative payment methods, such as e-wallets, online transactions using e-banking, debit and credit card usage have been increased and this will shift an efficient cashless infrastructure.

Prof. Dr. Sohini Sahu and Rakesh Jangid (August 2017) studied the impact of demonetization on the Indian economy. His main aim was to study the previous instances of demonetization round the world. He concluded that initially govt's objective was to curb black money but the figure says that, 97% of 500 and 1000 rupees' banknotes were deposited in banks and only 3% (.43 trillion rupees) black money was scraped as undeclared income hence he said that a less part of Black Money is in cash so this

Dr. S P Sharma and Ms. Areesha along with other research associates did the survey on demonetization and its impact on the economy, business and people. The survey report was prepared by PHD Chamber of Commerce and industry to assess the impact of demonetization on economy businesses and people. It was concluded that the major impact of demonetization was seen on cash intensive sectors. Construction and agriculture sector are both intensive both from the purchase side, with a portion of transactions involving cash and also because daily wages would to a large extent be paid in currency notes. So, the impact of demonetization is seen in the performance of key inputs like cement and steel, fertilizers, seeds and other agricultural inputs. Agriculture sector is majorly dependent on cash. Though Government has made various arrangements for farmers but majority of the farmers have responded that they appreciate the incentives and initiatives undertaken by the Government for the smooth functioning of banking in their regions, however the cash limit was not enough to meet their requirements and they were asked to wait for long hours to withdraw cash from the banks which impacted their plans for various things significantly. Cash driven construction sector has been impacted by demonetization as large number of workforce is deployed on daily base or in the form of contractual agreement and majority of the payments (70%) are made in cash to fulfil the day to day requirement of the workforce. Majority of the respondents (74%) said that they tried to cope with the situation but again after few weeks they were not able to continue their construction activities.

NithinandSharmila (2016) studied demonetization and its impact on Indian Economy. They opined that demonetization has shortterm negative impact on different sectors of the economy and such impacts are solvedwhenthe new currency notes are widely circulated in the economy. They also argued that the government should clear all the problems created due to demonetization and help the economyto work smoothly.

NikitaGajjar(2016): deliberated a study on Black Money inIndia: Present Status and Future Challenges and Demonetization. She described the framework, policy options and strategies that Indian Government should adapt to tackle with this issueandthe future challengesto be faced by the Government.

Vijay and Shiva (2016) examined demonetization and its complete financial inclusion. They felt that the rewards of demonetization are much encouraging and the demonetization is in the long-term interest of the country. They expressed that it had given temporary pain but it taught financial lessons. It influenced banking industries to do considerably investment on digitalization of banking services.

Manpreet Kaur (2017) conducted a study on demonetization and impact on Cashless Payment System. He said that the cashless system in the economy has many fruitful benefits less time-consuming, less cost, paper less transaction etc. and he expected that the future transaction system in all the sectors is cashless transaction system

Objectives of the Study

- 1) To study the history of demonetization in India
- 2) To study the impact of demonetization on people in Ahmedabad District
- 3) To study the relationship between demographic factors and level of impact of demonetization.
- 4) To study the impact of various factors on demonetization.

Research Methodology

Research type used for the study is descriptive in nature and was done with help of survey in Ahmedabad district. Sampling technique used was convenience sampling method and the sample size being 218. The data collection tools were primary and secondary data collection. Data was collected through a structured questionnaire. The data was analyzed through SPSS and various statistical tests were used i.e. frequency distribution, cross tab and chi-square test.

Analysis and Interpretation

The analysis is done in two phases. Firstly in order to understand the concept of demonetisation, history of demonetisation in India is discussed with the help of secondary data analysis and then the primary data analysis is discussed.

History of Demonetization in India:

- It is not the first time in history, that government has taken this kind of step. It has been happen twice in the past. The first currency ban was announced as on 12th January, 1946(Saturday) by RBI headquarter. At that time currency notes of 1000 and 10,000 were totally removed from economy. Both the notes were re-introduced in year 1954. At that time people had given 10 days time period to exchange the notes. Further that was extended to 15 days more where by people has to give reasons why they had not exchanged it in previous 10 days. It had not created much effect at that time. By the end of 1947 out of Rs.143.97 crores, notes of only Rs. 134.9 crores were exchanged. Thus notes worth Rs. 9.07 were perhaps “Demonetized”.
- The second currency ban was made on 16th January, 1978(Monday), announced by R. Janaki Raman a senior official of RBI, and at the time of Morarji Desai led Janata party. At that time currency ban was taken 1000, 5000 and 10,000 out of circulation. That time the people had given only 3 days to exchange the notes. This time around 73.1 crore was demonetized.
- Finally the 3rd, the most recent demonetization had been announced as on 8th November, 2016 by Prime Minister Narendra Modi. This time the currency of 500 and 1000 notes are demonetized from economy. The Government has instructed the hospitals, petrol pumps, airports etc to accept the old denomination notes till 11th November, 2016.

Demographic Profile of the Respondents:

Table 1 describes the demographic profile of the respondents for the study. Out of 218 respondents who were considered for the study: it has been analysed and identified that most (67.9%) of the respondents are male, (71.6%) whose age group is under 26 to 50 years, most (58.7%) of the respondents are the post graduates and the annual income of (45.9%) respondents is above Rs.2,50,000.

Gender			
Male		Female	
67.9%		32.1%	
Age			
<25	26-50	>50	
25.7%	71.6%	2.8%	
Qualification			
Upto School	Graduate	Post Graduate	Others
4.6 %	33.9 %	58.7%	2.8%
Income			
Upto Rs. 1 lac	Rs. 1 lac - Rs. 2.5 lacs		> Rs. 2.5 lacs
29.4 %	24.8%		45.9 %

Table 1 – Demographic Profile

Relationship between the Demographic Profile of the Respondents and Impact of Demonetization:

H1o : There is no significant association between gender and level of impact of demonetization

H2o : There is no significant association between age and level of impact of demonetization

H3o : There is no significant association between qualification and level of impact of demonetization

H4o : There is no significant association between income and level of impact of demonetization.

Demograp hics	Chi-Square (P-Value)	Hypothesis	Remarks
Gender	0.437	Accepted	There is no significant association between gender and level of impact on demonetization.
Age	0.000	Rejected	There is significant association between age and level of impact on demonetization.

Qualificati on	0.000	Rejected	There is significant association between qualification and level of impact on demonetization.
Income	0.004	Rejected	There is significant association between income and level of impact on demonetization.

Table 2 – Relationship between demographic factors and impact of demonetization

Table no.2 depicts the relationship between demographic variables and level of Impact of demonetization. The respondents were asked to give their opinion regarding the level of impact of demonetization from a scale of low to high. Chi-square test was applied in order to check the relationship between the demographic variables and the level of impact of demonetization. It is evident from the table above that p-value for gender is greater than 0.05 hence null hypothesis is accepted. It means that there is no significant association between gender and level of impact of demonetization. For all the other demographic factors i.e. age, educational qualification and income there exists a significant association. Overall, majority of the respondents have rated the impact of demonetization as low and moderate and very few of them rated as high.

Impact of demonetization on various factors

Factors	Mean Score	Rank
Demonetization helped to eradicate Black money from the system.	3.1651	4
Demonetization helped to destroy Corruption and illegal activities.	3.0642	6
Demonetization helped to increase electronic payment as mode of payment for various transactions.	3.9725	1
The impact of demonetization on real estate was high.	3.5596	2
The impact of demonetization on gold rates was high.	3.1193	5
The impact of demonetization on stock exchange was high.	3.2018	3

Table 3 – Impact of demonetization on various factors

Table 3 shows the mean value of different responses collected from the respondents related to the various factors those were impacted during the sensitive span of demonetization. Ranks are assigned to each factor. From the above table it is evident that due to demonetization the use of electronic mode(s) of payment

for various transactions increased, followed by its effect on the real estate sector. The impact of demonetization was least on the second factor listed on the table above i.e. destroying corruption and illegal activities.

Cashless means during Demonetisation

Cashless transactions means the transaction where in cash is not involved. Hence the mode of payment for any transaction is either through cheque or electronic transfer or use of debit/credit card or payment via e-wallet. It is evident that movement towards cashless transaction leads to movement towards digitalization. In order to understand whether demonetization helped to precede towards digitalization the respondents were asked whether they preferred cashless means during the period of demonetization. 92% of the respondents preferred cashless means during that phase where as 8 % of the respondents did not preferred to use cash less mode. Hence we can conclude that demonetization helped in initiating cashless transaction and the movement towards digitalisation.

Findings & Conclusion

1. It was found that out of the total 218 respondents, majority (67.9%) were males and the rest of them were females. Majority of the respondents belong to the age group of 26 – 50 years followed by 25.7% who were below 25 years and rest having the age above 50 years. It means that the most of the respondents were matured enough to understand the nature of this study and they can closely analyse and give their response for the entire episode of demonetization.
2. It was further found that majority (58.7%) of respondents are post graduates, 33.9% were graduates and the remaining have either studied up to school level or have acquired some other qualifications. It means that the responses were made after proper understanding of the subject matter and the authenticity of the responses is high.
3. To understand the impact of demonetization on different aspects this study has been done. The major impact was on that demonetization helped to increase the use of electronic modes of payment. From this we can conclude that slowly and gradually people have started accepting new technologies for their survival and daily requirement. This technological advancement would help the overall economy in long run to compete strongly at the global level.
4. It was found that the impact of demonetization was considerable on real estate sector. Generally it works on cash based transactions and requires high level of working capital. Hence, it had face some tough time during the phase of demonetization. So, it can be concluded that the areas which require working capital or hard cash for day to day transactions, to survive in such a phase would become a challenge for them.
5. The impact on stock exchanges was also high during the phase.
6. It was found that the decision helped to eradicate the issue of black money in to the circulation up to an extent.

7. Gold rates were also impacted but not so highly.
8. It was found that up to an extent demonetization helped to destroy the issue of corruption and illegal activities related to cash handling and 500 and 1000 rupees notes. Though the issue did not get solved completely yet it was the decision was alarming for many culprits.

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