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## A Study on Demonetization in India Economy

### About the Book

Developing India suffers serious social, economic, legal and technological challenges. Those challenges play a critical role in the country's socioeconomic development. In the present scenario, we must take appropriate steps for India's sustainable growth and development and its people. We must be equipped with adequate measures, tools and techniques to manage the changes in India's environment. This edited book attempts to assemble opinions and measures of different stakeholders from across the country to comprehend how well we are ready to cope with the challenges we are facing and the various trends we are witnessing to meet the expectation of our society and economy.

In the form of high-quality theoretical and empirical original research papers, review papers, case studies, conceptual frameworks, analytical and simulation models, and technical notes covering a wide range of topics about socioeconomic development and its policy impacts on society and individuals as well, the book offers a platform for researchers, academicians, professionals, and students to share their research achievements, perspectives, and practical experiences. The book creates space for discussions and exchanging ideas and knowledge on socioeconomic issues across the wider spectrum of scholarly opinion to stimulate theoretical, empirical, and comparative studies across the globe.

The book seeks paper on suggestions, recommendations, and possible practices that may be helpful for the betterment and welfare of the Indians. I hope your earnest and sincere effort will be very helpful to us in accomplishing the objectives of this book. Academics, Research Scholars, Social Scientists, Politicians, Social Activists, Corporate Professionals, Members of any Organized Body, Students, or anybody with knowledge of and interest in the subject matter.

### About the Editors

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7/31, Ansari Road, Daryaganj,  
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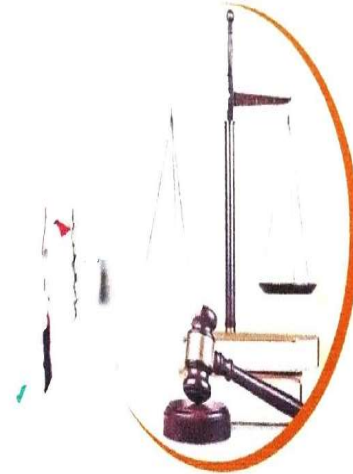
ISBN 978-81-958954-7-2



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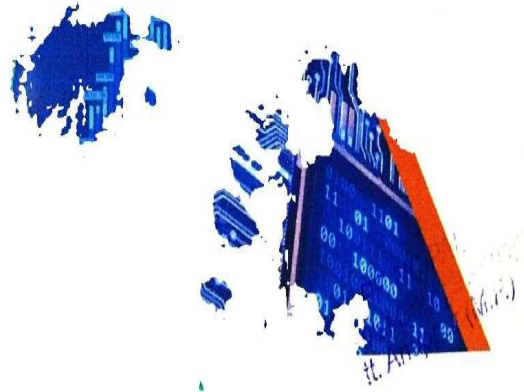
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CHAPTER - 16

## A Study on Demonetization in Indian Economy

Dr. Devendra Singh Bagri\*

### ABSTRACT

Cash transactions are the most difficult to track and account for but are also the most important. Controlling and accounting for cash transactions is a major obligation for a business and its accounting department. Because a purely cash transaction leaves no paper trail, it is the most difficult to document and track of all transactions. Removing a monetary unit's legal tender status is known as demonetization. When a country's currency is changed, the current form or forms of money are retired and replaced with new notes or coins. A country's old currency is sometimes completely replaced by a new one. This study aims to see how demonetization affects India's microeconomics. It's an exploratory study aimed at establishing the meaning and reasons for demonetization, its influence on various industries, and its positive and negative repercussions on the Indian economy. Indore locals who work in a range of industries make up the sample. Males and females will participate in the survey. The total number of people in the final sample was 163. In this work, data is collected using a convenient sampling strategy. Self-designed questionnaires are used to obtain primary data. As needed, several research papers, journals, and publications, as well as websites and books, have been consulted to obtain theoretical information on the subject. The collected data is analyzed through percentage analysis after data collection.

**Keywords:** Demonetization, Economy, impact, National Income, Digital.

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### Introduction

A “cash transaction” is one in which money is traded for an asset, good, or service, and the debt is paid in cash. Customers pay with actual currency such as notes and coins in a cash transaction, a sum of money provided to the supplier of goods and services in exchange by a consumer. Most domestic business transactions include cash payments made in the local currency, either in the form of coins, paper money, or a combination of both.

### Demonetization In India

On November 8, 2016, at 8:15 p.m., Indian Prime Minister Shri Narendra Modi declared demonetization, i.e., the circulation of the Mahatma Gandhi Series 500 and 1,000 banknotes would no longer be regarded as legal money and announced the issuance of new Mahatma Gandhi Series 500 and 2,000 banknotes. On the other hand, until December 2, 2016, state government-approved milk dairies, ration stores, government hospitals, petrol stations, railway ticket counters, and crematoriums were permitted to take the banned 500 and 1,000 banknotes.

### History of Demonetization In India

Demonetization in India has a long history repeating back to many emperors. The following are examples of demonetization in India:

1. On January 12, 1946, the legal tender status of the 500, 1,000, and 10,000 notes were declared null and void.
2. In 1954, new notes in the denominations of 1000, 5000, and 10,000 were introduced into the market.
3. The Morarji Desai Led-Janata Party demonetized banknotes worth 1000, 5000, and 100,000 on January 16, 1978.
4. To combat inflation, the RBI issued a new \$500 banknote into the market in 1987.
5. On November 8, 2016, the old 500 and 1,000 banknotes were no longer legal currency, and new 500 and 2000 banknotes were quickly introduced.

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Before being phased out, denominations of 1, 2, 3, 5, 10, 20, and 25 paise were also in circulation until June 30, 2011. Small coins, which are 50 paise coins, are still in circulation. Rupee coins are used for other denominations.

### Demonetization's Purpose

Following PM Modi's speech on demonetization, Urjit Patel, Governor of the Reserve Bank of India and Economic Affairs Secretary, held a press conference clarifying why the 500 and 1,000 rupee banknotes were being demonetized.:

- Addressing India's Black Money Problem
- Preventing Terrorist Financing
- To rid India of corruption;
- To deprive the corrupt of their wealth.
- To ensure that everyone has a bank account.
- To connect the parallel and formal economies.
- To promote deposit-taking and savings
- To promote a cashless society
- To combat false currency notes (counterfeit notes)
- To promote the white economy

### Digital Modes of Payment

The use of digital payment methods has increased dramatically since demonetization. Following demonetization, a great emphasis has been placed on digital payment options. People were busy depositing/exchanging SBNs in the weeks after demonetization was announced. Hence digital activity was limited. However, as demonetization continued in December 2016, the number of digital payments increased dramatically. According to use statistics, primary electronic payment methods saw a significant surge in October 2016, attributable to the Christmas season. From November through January 2017, the robust rise continued, with a modest increase in some components, indicating a positive demonetization side impact. However, the rate of growth

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dropped marginally in February 2017.

### Review of Literature

Shukla, Bal, Gupta and Hariom (2018) explored the study of business students' perspectives on demonetization in Allahabad city. Based on preliminary information, people eagerly applaud any government initiative to combat corruption, black money, and other issues like terrorism and nationalism.

Bhardwaz et al. (2017) used the efficient market theory to evaluate the impact of demonetization on the stock market. The National Stock Exchange of India was investigated from 2012 to 2016. According to the study, demonetization significantly influences the stock market and inevitable other fluctuations.

Muthulakshmi and Kamatchi (2017) examine the effects of demonetization on Indian system concerns and challenges; eliminating money from the economy does not help the country in the short term. Money, on the other hand, will have a beneficial and considerable impact on the economy. On the other hand, she says that demonetization significantly reduced black money, corruption, hawala transactions, counterfeit currency, and terror financing. It did, however, harm various businesses, including commodities and real estate.

Shah and Yousuf (2017) found in the study that demonetization is a critical step in the fight against corruption, black money, and terror financing. However, the choice was made without adequate forethought, and it negatively influenced the people. Due to a lack of fresh currency notes, 86% of currency notes were removed, disrupting all market activities. It took down tax evaders and black money holders while clearing the country's black money. The government demonetized the Rs. 500 & Rs. 1000 notes. The general public has been confused by the unpredicted declaration of demonetization and the lack of good planning. People have difficulty purchasing items without money, wasting time in long lines that may have been avoided with earlier planning.

Mahajan and Singla A. (2017) study the impact of demonetization on financial inclusion in India Demonetization's effects on regular

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people, the informal sector, NBFCMFIs, MSMEs, and E-wallet firms Ordinary people were the ones who suffered the most.

Veerakumar K. (2017) examined the government's announcement of demonetizing 500 and 1000 rupee currency notes as a great shock to Indian residents. The highest value notes are removed from circulation to combat tax evasion, counterfeit cash, and the financing of terrorist activities. It has been proven that enormous sums of money are deposited in bank accounts that exceed the limits set by the government and are subject to penalties and taxes. The use of e-wallets, debit cards, and credit cards has increased dramatically, resulting in a more efficient cashless infrastructure.

Abhani Dhara K. (2017) According to the author, this demonetization proves more successful than the previous two. People are making payments using online banking. Bank personnel is working feverishly to ensure the success of demonetization. Demonetization may not have succeeded in capturing all black money in the economy, but it has instilled fear in those who possess it. He judged that, among other things, demonetization was an essential step in battling dark money, terrorism, and corruption.

Shanbhogue Girish, Kumar, A. Prashanth, Bhat, Swathi and Shettigar, Chethan (2016) The currency restriction was portrayed as a surgical strike against the country's black money and corruption, as well as an attempt to prevent the use of counterfeit banknotes for terror financing. Demonetization results in a cash shortage in the country, affecting many small businesses, agriculture, and transportation. The scarcity of money caused fear, and most people had difficulty in exchanging their banknotes owing to long lines at banks and ATMs around the country. This demonetization phase has proven to be India's most significant attack on black money and corruption, and a step toward digitisation. It also encourages people to utilize electronic payment methods. They concluded that demonetization is favourable in the short, medium, and long run.

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### ***Objectives of the Study***

To comprehend the changes in government policies promoting digital payment and the public's preferences and perspectives on demonetization.

### **Research Methodology**

#### ***The Study***

This study aims to see how demonetization affects India's microeconomics. It's an exploratory study aimed at establishing the meaning and reasons for demonetization, its influence on various industries, and its positive and negative repercussions on the Indian economy.

#### ***The Sample***

The sample is drawn from the population working in various sectors located at Indore. The respondents will be both male & females. The final sample is constituted of 163 respondents from the above said sector.

#### ***The Sampling Technique***

Convenient sampling technique is used for collection of data in the study.

#### ***Tools for Data Collection***

Self-designed questionnaires are used to obtain primary data. Various research papers, journals, publications, websites, and books have been referred for theoretical information on the topic.

#### ***Data Analysis***

The collected data is analyzed through suitable statistical analytical tools after data collection.

#### ***Analysis and Interpretation of Data***

The following are the results of the questions asked of respondents in the research instrument, as well as their interpretations:

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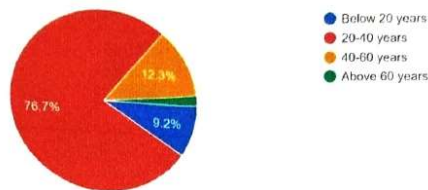
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## Respondent's Profile Age

### 2. Age

100 responses



### Interpretation

The research shows that 9.2% of respondents are below 20 years, 76.7% are between 20-40 years, 12.3% are between 40-60 years, and 1.8% are above 60 years.

Table – 1: Annual Income

No. of Response	Age	% Of Response
70	Below Rs. 500000	42.9%
46	500000-1000000	28.2%
41	1000000-1500000	25.2%
6	Above 1500000	3.7%
163	Grand Total	

Sources: Survey Data

### Interpretation

The research shows that 42.9% respondents are below Rs.500000 income level, 28.2% respondents have income between Rs.500000-100000, Rs.100000-1500000 are 25.2%, 3.7% are above Rs.1500000.

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Table – 2: Opinion Black money exists in India

No. of Response	Responses	% Of Response
141	Agree	86.5 %
15	Can't Say	9.2%
7	Disagree	4.3%
163	Grand Total	

Sources: Survey Data

According to the above table, 86.5 percent of respondents believed that black money exists in India, while 4.3 percent disagreed. However, 9.2 percent of respondents had neither good or negative feelings on the question.

Table – 3: The currency banned by the Indian government was the right decision to fight against black money

No. of Response	Responses	% Of Response
124	Agree	76.1%
17	Can't Say	10.4%
22	Disagree	13.5%

Sources: Survey Data

In the above table, 76.1 percent of respondents believed that the currency banned by the Indian government was the right option to combat black money, while 13.5 percent disagreed. But, 10.4 percent of respondents had neither good or negative feelings towards the question.

Table – 4 : Demonetization caused inconvenience to citizen of India

No. of Response	Responses	% of Response
112	Agree	68.7%
26	Can't Say	16%
25	Disagree	15.3%
163	Grand Total	

Sources: Survey Data

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According to the above table, 68.7 percent of respondents agreed that Demonetization caused difficulty for Indian citizens, while 15.3 percent disagreed. Nonetheless, 16% of respondents had neither good nor negative feelings about the question.

**Table – 5: During Demonetization people has spent more than usual time at Banks or ATM's**

No. of Response	Responses	% of Response
134	Agree	82.2%
17	Can't Say	10.4%
12	Disagree	7.4%
163	Grand Total	

Sources: Survey Data

The above table show that 82.2 percent of respondents agreed that during Demonetization, individuals spent more time than normal at banks or ATMs, while 7.4 percent disagreed. Meanwhile, 10.4 percent of respondents had neither good or negative feelings towards the question.

**Table – 6 : During Demonetization everyone faced financial crises at professional or personal level due to a severe cash shortage**

No. of Response	Responses	% of Response
109	Agree	66.9%
28	Can't Say	17.2%
26	Disagree	16%
163	Grand Total	

Sources: Survey Data

The above table, showed that 66.9 percent of respondents agreed that during Demonetization, everyone encountered financial issues on a professional or personal level owing to a significant cash shortage, while 16 percent disagreed. However, 17.2 percent of respondents had neither good or negative feelings towards the question.

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**Table - 7: There has been a growth of digital transactions due to demonetization**

No. of Response	Responses	% of Response
138	Agree	84.7%
17	Can't Say	10.4%
8	Disagree	4.9%
163	Grand Total	

Sources: Survey Data

According to the above table, 84.7 percent of respondents agreed that there has been an increase in digital transactions due to demonetization, while 4.9 percent disagreed. However, 10.4 percent of respondents had neither good or negative feelings towards the question.

**Table - 8: Demonetization had a great impact on every sector of Indian economy.**

No. of Response	Responses	% of Response
121	Agree	74.2%
30	Can't Say	18.4%
12	Disagree	7.4%
163	Grand Total	

Sources: Survey Data

In the above table, 74.2 percent of respondents believed that Demonetization significantly influenced every area of the Indian economy, while 7.4 percent disagreed. However, 18.4 percent of respondents had neither good nor negative feelings towards the question.

**Table - 9 : Demonetization affected the National Income of country**

No. of Response	Responses	% of Response
109	Agree	66.9%
29	Can't Say	17.8%
25	Disagree	15.3%
163	Grand Total	

Sources: Survey Data

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According to the above, 66.9 percent of respondents believed that demonetization impacted the country's national income, while 15.3 percent disagreed. Still, 17.8 percent of respondents had neither good nor negative feelings towards the subject.

### Conclusion & Discussion

According to the primary data research findings, almost everyone agrees that there are people in India who have black money, which is unaccounted money and money earned through unlawful techniques that is clearly unrecorded and unaccounted for. Demonetization is just one step in battling and eliminating black money in the form of cash and addressing the root causes of counterfeit money. Almost everyone felt cash shortages and hardship during the 50-day demonetization period. Still, many agreed that it was necessary to battle the determinants that were wreaking havoc on the Indian economy. They pledged to participate in India's surgical strike against black money, corruption, inflation, and counterfeit notes, regardless of how long it took. People have waited in lines in front of banks and ATMs to deposit and exchange old currency notes for new currency notes. They have been encouraged by digitalization to adopt digital payment systems and progress toward a cashless society. There is still a risk of counterfeit cash though most people are unfamiliar with the new notes' security features. There's a chance that someone unfamiliar with the new currency note will use it. Most people thought the Modi government's demonetization decision was a good idea. There's a chance that fresh bogus money notes will be utilised by someone who isn't familiar with them. The majority of respondents felt that the Modi government's demonetization decision was hazardous, but that risk aside, the move was vital in the battle against money laundering, terror funding, parallel economies, and hyperinflation, all of which would benefit each individual citizen in the long run.

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