

Impact Of Demonetization: A Case Study Of Ambala Distt

* Dr. Ajit Bansal

Abstract:

Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit. Samples of 200 respondents were randomly selected from Ambala District of Haryana. It is found that four variables namely gender, age, annual income, occupation have significant association with the impact of demonetization. It also results that demonetization helps demolish black money is the first ranking given by the respondents and it is followed by demolition of Social Evils like corruption, terrorism etc. It has been concluded that no doubt, most of the sectors have shown impact but all the issues mentioned in paper stand for very short period and in long term, Indian economy will emerge as one of the strongest economy in the world resulting from our government move of demonetization.

Keywords: Demonetization, glance, currency, black money

Introduction

“Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit”. Demonetization is the process in which a particular currency or valuable mineral tender degraded as a legal tender. This happens when a certain currency of origin, or when a newer currency comes into circulation. There are multiple reasons why nations demonetize their local units of currency. Some reasons include combating inflation, to combat corruption, and to discourage a cash system. The process of demonetization involves either introducing new notes or coins of the same currency or completely replacing the old currency with new currency. In 2016, the Indian government decided to demonetize the 500 and 1000 rupee notes, the two biggest demonetization notes. These notes accounted for 86% of the country cash supply. The government goals were to eradicate counterfeit currency, fight tax evasion, eliminate black money accumulated from money laundering and terrorist financing activities, and promote a cashless economy. By making the larger denomination notes worthless, individuals and entities with huge sums of black money accumulated from parallel cash systems were forced to convert the money at a bank, which the bank by law required to acquire tax information from the entity & if could not provide proof of making any tax payments on the cash, a tax penalty of 200% was imposed.

*Professor, School of Business Management, Maharaja Agarsen University, Solan (H.P.)

Demonetization in India

On 28 October 2016, the total currency in circulation in India was 17.77 lakh crore (US\$260 billion). In terms of value, the annual report of Reserve Bank of India of 31 March 2016 stated that total bank notes in circulation valued to 16.42 lakh crore (US\$240 billion) of which nearly 86% (i.e. 14.18 lakh crore (US\$210 billion) was 500 and 1000 rupee notes. In terms of volume, the report stated that 24% (i.e. 2,203 crore) of the total 9,026.6 crore banknotes were in circulation.

In an important move, the Government of India declared that the five hundred and one thousand rupee notes will no longer be legal tender from midnight, 8th November 2016. The RBI will issue Two thousand rupee notes and new notes of Five hundred rupees, which would be placed in circulation from 10th November 2016. Notes of one hundred, fifty, twenty, ten, five, two and one rupee will remain legal tender and would remain unaffected by this decision. This measure had been taken by the PM in an attempt to address corruption, black money and counterfeit notes.

India's history with demonetization: From 1946 to 2016

The first currency ban:

In 1946, the currency note of 1,000 and 10,000 were removed from circulation. The ban really did not have much impact, as the currency of such higher denomination was not accessible to the common people. However, both the notes were reintroduced in 1954 with an additional introduction of 5,000 currency. 500 and 1000 notes were introduced in 1934 and after four years in 1938, 10,000 notes were introduced.

The second:

That came in 1978; the then Prime Minister of India Morarji Desai announced the currency ban taking 1000, 5000 and 10,000 out of circulation. The sole aim of the ban was to curb black money generation in the country.

November 2016 demonetization move : The Indian government moved as well as decided on November 8, 2016 to demonetize the two notes with biggest denomination i.e. Rupees 500 and 1000 that comprises 86 % share in the total cash supply chain of the country.

Need for the Study:

- The fake Indian currency notes in higher denomination had increased.
- Unaccounted money, often used in any form of corruption and illegal activities.
- The Financial Action Task Force, a global body that looks at the criminal use of the international financial system, noted that high-value bills are used in money laundering schemes, racketeering, etc.,

- In the United States, the highest denomination bank note is \$100 and United Kingdom, the highest denomination bank note £50.
- The highest denomination note is essentially 50-100 times the smallest denomination note of one dollar or one pound.
- In India, up until now the highest denomination note was 1,000 and this was 1,000 times the smallest denomination note of 1 (Note: 1 notes are issued by the ministry of finance).

Review of Literature: Tax Research Team of NIPFP Working paper series (2016) No. 182 14-Nov-2016, in their working paper had stated arguments in favour of demonetization. The main objective of this working paper was to analyze the impact of demonetization on Indian economy. This paper showed the impact of demonization on the availability of credit, spending, and level of activity and government finances.

Sukanta Sarkar (2010) conducted a study on the parallel economy in India: Causes, impacts & government initiatives in which the researcher focused on the existence of causes and impacts of black money in India. According to the study, the main reason behind the generation of black money is the Indian Political System i.e. lack of strong political will to curb the black money. The study concludes that laws should be implemented properly to control black money in our economy.

Mohd. (November 2016) in his study on Demonetization of Currency Notes: Significance and Challenges studied about the significance as well as challenges of demonetization of currency notes. The researcher concluded through the study made that this move was going to have bigger implications on the Indian economy as a whole in the long run.

Sunita (September 2014) in her research “The parallel economy in India: Causes, impacts & government initiatives” studied about the reasons as well as measures adopted by the government on demonetization that was implemented in Indian context. 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).

Objectives of the Study

- To describe the demonetization concept in India.

- To analyze the demographic profile of the respondents in Ambala Distt of Haryana.
- To identify the impact of demonetization on people.
- To work out the probable consequences of the demonetization.

Research Methodology

Ambala District is the study area selected for this research. Primary data is collected through well structured questionnaire. Samples of 200 respondents in Ambala District have been selected by using random sampling method. The collected information were reviewed and consolidated into a master table. For the purpose of analysis the data were further processed by using statistical tools. The statistical tools are

- Simple Percentage
- Chi-Square Test
- Ranking Method

Hypothesis: A research hypothesis is a predictive statement, capable of being tested by scientific methods, that relates an independent variable to some dependent variable. The hypothesis is formed in such a manner that if one hypothesis is accepted the other one is rejected and vice-versa. The χ^2 test of independence is applied to find the relationship between demographic variables with the pattern of use. Keeping in view the objectives of study, following hypothesis have been developed.

Null Hypothesis Ho: There exists any significant association between educational qualifications, type of family of the respondents and level of impact on demonetization.

Alternate Hypothesis Ha- There exists no significant association between educational qualifications, type of family of the respondents and level of impact on demonetization.

Limitations of the Study

1. The study is restricted to the selected sample of Ambala District and hence the result of the study cannot be generalized.
2. The statistical methods used to analyze the data have their own limitation.
3. All the limitations of primary data are applicable to this study.

Analysis and Interpretation

Demographic Profile of the People:

Table no.1 describes the demographic profile of the respondents for the study. Out of 200 respondents it has been found that most (62%) of the respondent are male, (57%) whose age group is under 26 to 50 years, most (61%) of the respondents are up to school Level, (46%) of the respondents are businessman and the annual income of (55%) respondents is between 100001 to 2,50,000, (64%) of the respondents belong to joint family.

Table-1: Demographic Profile of the Respondents		
Factors	No of Respondents N=200	Percentage (%)
Gender		
Male	124	62
Female	76	38
Age (Years)		
Less than 25	28	14
26 to 50	114	57
50 & Above	58	29
Educational Qualification		
Illiterate	18	9
Up to School Level	122	61
Graduation Level	43	21.5
Graduation & Above	17	8.5
Occupation		
Housewife	25	12.5
Business	92	46
Employee	55	27.5
Professional	28	14
Annual Income		
up to 1 lac	36	18
1000001 to 250000	110	55
Above 250000	55	27
Type of Family		
Nuclear Family	72	36
Joint Family	128	64

Study of Relationship Between Demographic Profile of Respondents & Impact of Demonetization: Table No.2 depicts the relationship between selected demographic variables and Level of Impact of demonetization on the respondents. It is clear that, the calculated Chi-square value is less than the table value at five percent level, there does not exist any significant association between educational qualification, type of family of the respondents and level of impact of demonetization. Thus, the null hypothesis is accepted. It is clear that, the calculated Chi-square value is greater than the table value at five percent level, there exist a significant association between gender, age, annual income, occupation and level of impact on demonetization. Thus the null hypothesis is rejected.

Table-2: Study of Relationship Between Demographic Profile of Respondents & Impact of Demonetization						
Variables	Level of Awareness			Total	x2	Table Value
	Low	Moderate	High			
Gender						
Male	22	37	65	124	7.634	5.991
Female	24	17	35	76		
Age (Years)						
Less than 25	8	10	10	28	11.5	9.488
26 to 50	34	52	28	114		
50 & Above	24	10	24	58		
Educational Qualification						
Illiterate	9	6	3	18	6.178	9.488
Up to School Level	70	23	29	122		
Graduation Level	17	18	8	43		
Graduation & Above	3	5	9	17		
Occupation						
Housewife	13	8	4	25	11.82	9.488
Business	33	35	24	92		
Employees	7	23	25	55		
Professional	5	6	17	28		
Annual Income						
up to 1 lac	12	8	16	36	21.82	9.488
1000001 to 250000	35	38	37	110		
Above 250000	18	30	7	55		
Type of Family						
Nuclear Family	14	40	18	72	3.598	5.991
Joint Family	36	65	27	128		

* Significant at 5% Level

Factors Having Impact on the People due to Demonetization:

The Table No 3 below shows about the weighted average of each factor regarding the impact of demonetization. From the calculated weighted average demonetization destroys black money has been ranked first by the respondents and it is followed by demolition of social evils like corruption, terrorism etc.

Table-3: Study on Factors having Impact on Public due to Demonetization								
Factors/Rank	5	4	3	2	1	Total	Mean	Rank
Demonetization helps to Demolish Black Money in India	75	71	26	8	20	200	3.86	1
Demonetization helps in demolishing social evils like corruption, illegal practices etc..	84	52	28	8	28	200	3.78	2
Digital Payments	40	60	28	48	24	200	3.22	5
Impact on Real Estate, Stock Exchange, Gold Rates	44	56	28	48	24	200	3.24	4
General Impact on People	56	76	16	16	36	200	3.5	3

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. The economy is expected to recover soon after the circulation of new currency notes.

Conclusions

The demonetization of the highest denomination note undertaken by the government is a big shock to the Indian economy. The demonetization was taken for several measures such as tax evasion, counterfeit currency and funding of illegal activities. Some people were depositing currency notes in excess of specified limits directly into bank accounts has showed the unaccounted income, subject to higher tax and other penalties.

References:

- <https://www.ncaacademy.com/know-all-about-history-of-indian-currency-demonetisation>
- K. Veerakumar (2017), "A Study on People Impact on Demonetization", International Journal of Interdisciplinary Research in Arts and Humanities, Volume 2, Issue 1, pp 9-12.
- Mohd MS (2016), "Demonetization of Currency Notes: Significance and Challenges", International Journal of Innovative Research and Advanced Studies, 3(12) ISSN: 2394-4404, pp 60-64.
- Rao DK, Mukherjee DS, Kumar DS, Sengupta DP, Tandon S, Nayudu SH (2016), "Demonetization: Impact on the Economy", NIPFP Working 2016, 182:1-17. Accessed at: <http://www.nipfp.org.in/publications/working-paper/1772/>.
- Singh Pratap Singh Virender (2016), "Impact of Demonization on Indian Economy", International Journal of Science Technology & Management, Vol No 5, Issue No.12, Dec2016, pp625-635.
- Sukanta Sarkar (2010), "The parallel economy in India: Causes, Impacts & Government Initiatives", Economic Journal of Development Issues, Volume 11-12 No.(1-2) pp 124-134.
- Sunil (2017), "Demonetization at glance in Indian scenario: A Conceptual Study", International Journal of Applied Research, 3(2), pp 04-08.
- Sunita (2014), "Demonetization of Indian Rupee against US \$: A Historical Perspective", Discovery, 23(78), pp 108-112.