



## An Impact of Demonetization on Indian Economy

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### Abstract

*Demonetization refers to Withdrawal of a particular form of currency from circulation. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be removed and substituted with a new currency unit. The currency was demonetized first time in 1946 and second time in 1978. On Nov. 2016 the currency is demonetized third time by the present Modi government. This is the bold step taken by the govt. for the betterment of the economy and country. In this paper I want to discuss the impact of recent demonetization on the currency.*

### 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. There are multiple reasons why nations demonetize their local units of currency. Some reasons include to combat 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.

It first happened in 1946 when the Reserve Bank of India demonetized the then circulated Rs 1,000 and Rs 10,000 notes. Higher denomination banknotes in Rs 1,000, Rs 5,000 and Rs 10,000 were introduced eight years later in the year 1954. These very notes were again demonetized by the Morraji Desai government in 1978.

The demonetization move of 1978 too was made to tackle the black money economy. In the year 1978, the Indian government demonetized Rs 1,000, Rs 5,000 and Rs 10,000 notes, which were quite substantial then. The move was executed under the High Denomination Bank Note (Demonetization) Act, 1978.

Under this law, all high denomination bank notes ceased to be legal tenders after January 16, 1978. People carrying these notes were given a week's time to exchange the currencies, unlike the present situation where the government has given a month's time to exchange the denominations.

The strike of midnight November 8 saw most of India sleepless as PM Narendra Modi announced that currency denominations of Rs 500 and Rs 1,000 were rendered illegal. This move, otherwise known as currency demonetization, had taken the people by surprise. But, there is nothing to worry, albeit the long queues, say economists and experts.

In 2016, the Indian government decided to demonetize the 500- and 1000- rupee notes, the two biggest denomination notes. These notes accounted for 86% of the country's cash supply. The government's goal was to eradicate counterfeit currency, fight tax evasion, eliminate black money gotten 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 gotten from parallel cash systems were forced to convert the money at a bank which is by law required to acquire tax information from the entity. If the entity could not provide proof of making any



tax payments on the cash, a tax penalty of 200% of the tax owed was imposed.

## 2.Literature Review

Annamalai, S. and Muthu R. liakkuvan (2008), In their article 'Retail transaction: Future bright for plastic money' projected the growth of debit and credit cards in the retail transactions. They also mentioned the growth factors, which leads to its popularity, important constraints faced by banks and summarized with bright future and scope of plastic money.

Alvares, Clifford (2009), In their reports 'The problem regarding fake currency in India.' It is said that the country's battle against fake currency is not getting easier and many fakes go undetected. It is also stated that counterfeiters hitherto had restricted printing facilities which made it easier to discover fakes.

Ashish Das, and Rakhi Agarwal (2010), In their article 'Cashless Payment System in India- A Roadmap' Cash as a mode of payment is an expensive proposition for the Government. The country needs to move away from cash-based towards a cashless (electronic) payment system. This will help reduce currency management cost, track transactions, check tax avoidance / fraud etc., enhance financial inclusion and integrate the parallel economy with main stream.

Jain, P.M (2006), In the article 'E-payments and e-banking' opined that e- payments will be able to check black "An Analysis of Growth Pattern of Cashless Transaction System. Taking fullest advantage of technology, quick payments and remittances will ensure optimal use of available funds for banks, financial institutions, business houses and common citizen of India. He also pointed out the need for e-payments and modes of e-payments and communication networks.

## 3.Objective

- i To study role of demonetization in banking sector.
- ii To study of how removing black money from country.

iii To know the currency effect on NPA.

## 4.Hypothesis

- i To study that changing of currency notes will be able to reduce corruption.
- ii To study the effect on banking interest rate.
- iii To study the effect on Indian Economy.

## 5.Research methodology

HO : There is effect on currency towards demonetization.

H1: There is no effect on currency towards demonetization.

The sample : The present research is to conducted on a sample of 30. The respondent were in the age group of 18 years to 40 years. their income level varied.

Tools and data collection: for collection of data a self developed questionnaire meeting the objective of study consisting of 5 statement based on 4 points likert type scale was developed, in which the respondents were asked to indicate their degree of agreement or disagreement to various parameter used for know the perception of people.

Tools used for data analysis: the analysis of collected data was carried out using Ms excel. T-test is applied on the data to compare the responses of peoples

## 6.Result and Discussion

It is evident from Annexure 1, that  $t_{cal} < t_{tab}$  (  $1.30 < 2.132$  ) at 5% level of significance , thus null hypothesis stands accepted. It can be concluded that there is major effect on currency towards demonetization.

## Conclusion

Demonetization create the major effect on currency. Now-a-days it is very difficult to maintain the banking transaction. through the demonetization the currency appreciate and faces the many hurdle to maintain financial activity. Demonetization of old currency notes surely has had some positive impact like reducing the cash flow to terror organizations, dismantling of counterfeit currency infrastructure, better income tax and indirect taxation, boost to digital economy. The demonetization of the highest



denomination note undertaken by the government is a big shock to the Indian. The demonetization is taken for several measures such as tax evasion, counterfeit currency and funding of illegal activities. Some people are depositing currency notes in excess of specified limits directly 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.

### 8. References

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Website:-

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- 3 <http://www.investopedia.com>

### Annexure

#### Table

Sample size for T-test	30
Mean	81.4
Standard Dev.	2.40
Assumed Mean	80
T value	1.30 which is accepted ( At 5 % level of significance.)

Particulars	Disagree	Neutral	Agree	strongly Agree
Demonetization effect the currency?				
Through Demo. The people face the problem?				
Do you think the evil of corruption and black money needs to be fought and eliminated.				
Do you think demo. Will bring real estate, higher education, healthcare, Banking in common mans reach?				
Do you think black money exist in India?				