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A Study on the Impact of Demonetization on Common People in Kochi

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Abstract

Demonetization is the act of taking off a particular currency note from circulation. It is an act of cancelling the legal tender status of a currency unit in circulation. On 8th November, 2016Prime Minister of India Narendra Modi announced the demonetization of Rs.500 and Rs.1000 notes with effect from midnight, making these notes invalid. India being cash based economy, the move of government to make India a cashless economy, was shocking to all the citizens, especially the common people. The present paper examines the impact of demonetization among the common people in the Kochi and their attitude towards the move of Government. Data were collected from 100 respondents of Kochi who belong to middle class and lower-class group by adopting questionnaire method. Data analysis has been done by employing percentage analysis method. The study found out that demonetization caused grievous injury to all those honest citizens who earn wages in cash, transact in cash and save in cash. However, people faced this hard ship only for a short span of time and recovered from this very quickly.

Keywords*: Demonetization, fake currency.*

INTRODUCTION

Demonetization is the act of stripping a currency unit of its status as legal tender. It is a process of removing a currency from general usage or circulation of money in a country. Demonetization is an act where the old unit of currency gets retired and replaced with a new currency unit. It can also be considered as withdrawal of a specific currency from market.

On Tuesday, 8th of November, 2016 India faced demonetization for the third time. Prime Minister of India Narendra Modi announced the Demonetization of Rs.500 and Rs.1000 notes with effect from midnight, making these notes invalid. The major reasons behind this move were controlling black money, controlling fake currency and controlling corruption. According to The Reserve Bank of India, the most important reason for the Demonetization of Rs.500 and Rs.1000 note was the rise of fake currencies of the same notes, and also the higher occurrence of black money in the economy. The fake notes are being used for illegal activities by anti-nationalists like terrorists and India being a nation of a cash-based economy, the circulation of fake currency continues to be a threat. But it has been taken care by Government that the public that a person who changed his higher value cash will get exactly the equal amount in lower denominations.

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Vol-22- Issue-14-December-2019

This project studies the impact of demonetization among the common people in the Kochi and their attitude towards the move of Government. India is a nation where only small percentage belongs to the rich class and majority of the population having a normal income, even though they are above poverty line. It is estimated that 23.6% of Indian population, or about 276 million people, lived below $1.25 per day on purchasing power parity. Also, Indian economy is the cash-based economy where 90% transaction has taken place in cash only. In such situation the move to demonetize higher denomination notes had affected the whole economy.

STATEMENT OF THE PROBLEM

The study deals with the impact of demonetization among the common people in Kochi. In a developing nation like India, the act of demonetizing higher denomination notes is a risky attempt. Such moves affect the growth of the nation. This project helps to identify how far the common people were affected by the sudden demonetization policy and their reaction to this move. Also, to identify how far it helped in the removal of black money and corruption. The ultimate objective of this endeavour is to have a detailed view of demonetization and its implications for general public and economy as a whole.

REVIEW OF LITERATURE

1) Dr. Pratap Singh & Virender Singh (2016)[1] *"Impactof Demonetization on Indian Economy"*. A significant portion of the household cash on hand is generated by economic transactions that are not reported to tax authorities or generated through corruption. The study highlights the probable consequences of this decision on various economic variables and entities. The author concluded that if the money disappears, as some hoarders would not like to be seen with their cash pile, the economy will not benefit. On the other hand, if the money finds its way in the economy it could have a meaningful impact.

2)Nithin and Sharmila (2016)[2] studied demonetization and its impact on Indian Economy. They opined that demonetization has short term negative impact on different sectors of the economy and such impacts are solved when the 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 economy to work smoothly.

3)Mahajan, P., & Singla, A. (2017)[3] examined the impact of demonetization on financial inclusion in India. The study analyzed demonetization effects on ordinary people, informal

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Vol-22- Issue-14-December-2019

sectors, NBFCMFIs, MSMEs and E-wallet companies. The findings of the study show that ordinary people were the most affected.

4)The Tax Research Team (2016)[4] has written in favor of demonetization is that the cash that would be extinguished would be "black money" and hence, should be rightfully extinguished to set right the perverse incentive structure in the economy. While the facts are not available to anybody, it would be foolhardy to argue that this is the only possibility. Therefore, it is imperative to evaluate the short-run and medium-term impacts that such a shock is expected to have on the economy. Further, the impact of such a move would vary depending on the extent to which the government decides to remonetize. The paper elucidates the impact of such a move on the availability of credit, spending, and level of activity and government finances.

5) Veerakumar. K(2017)[5] analyzed the impact of demonetization on the public perception. The study found that gender, age, occupation and annual income have significant impact association with demonetization. The study also found that demonetization will help to destroy black money, corruption and terrorism.

OBJECTIVES

1) To know the opinion of people about demonetization policy.
2) To know the opinion of people about abolishing black money and corruption through demonetization.
3) To study the effect of demonetization on common people.
4) To understand how far demonetization policy was successful in the opinion of the people.

RESEARCH METHODOLOGY

- **TYPE OF RESEARCH**

The type of research followed in the study is survey, which is used as a popular data collection method used with descriptive studies. The essence of survey method can be explained as "questioning individuals on a topic or topics and then describing their responses". The survey method of primary data collection is used to test concepts, reflect attitude of people, establish the level of customer satisfaction and a set of other purposes. Survey method can be used, quantitative, as well as, qualitative studies.

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Vol-22- Issue-14-December-2019

- **SOURCE OF DATA**

The study uses both primary data and secondary data:

Primary Data:
The primary data is collected by using a structured questionnaire method. A questionnaire was framed to collect the information to fulfill the objectives of the study. Oral questionings were also done to know the impact of the issue on common people.

Secondary Data:
Secondary data were collected from articles in newspapers, media reports, journals, relevant web sites etc. to know the impact of demonetization.

- **SAMPLING TECHNIQUE**

Convenient sampling technique was followed for the study. One of the reasons to adopt this technique is that all are aware of the topic. Statistically to arrive at conclusions, data were analyzed by using percentage analysis method and were graphically presented. MS Word and MS Excel were the software used to analyze and present the data.

Sampling Method ⟶ Convenience Sampling Method

- **SAMPLING SIZE**

Information was collected from people of Kochi which forms the universe of the study. The number of sampling units from the universe is called the size of the sample. From the universe, 100 units were selected and were asked about the impact of demonetization.

Universe ⟶ Kochi
Sample Size ⟶ 100 Respondents

- **TOOLS USED FOR THE STUDY**

Pie Chart

A pie chart (or a circle chart) is a circular statistical graphic, which is divided into slices to illustrate numerical proportion. In a pie chart, the length of each slice (and consequently its central angle and area), is proportional to the quantity it represents.

Bar Chart

A bar chart is a chart that presents categorical data with rectangular bars with heights or lengths proportional to the values that they represent. It can be plotted vertically or horizontally.

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Vol-22- Issue-14-December-2019

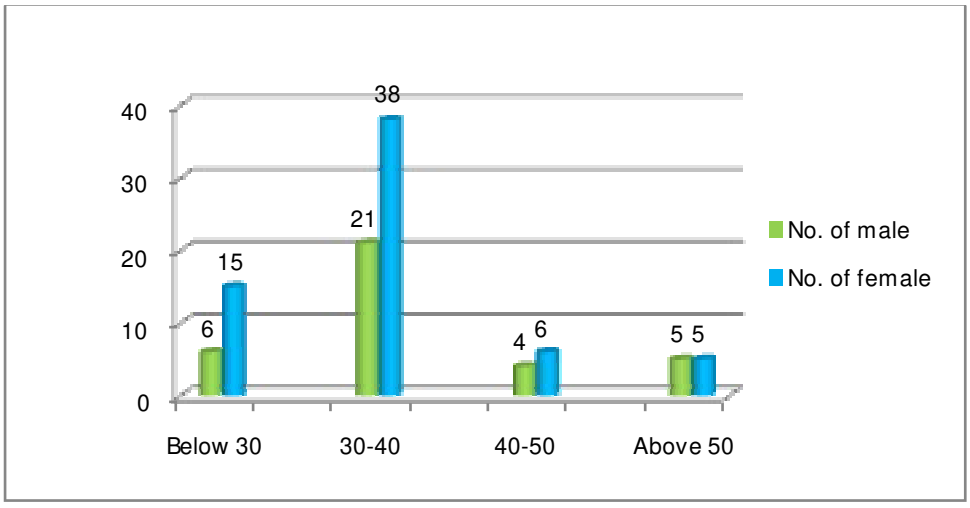
LIMITATION

- ✓ The study is restricted to the selected sample of Kochi and hence the result of the study cannot be generalized.
- ✓ There is a chance of providing wrong data by the respondents.
- ✓ Many respondents don't express their original perceptions and views. Also certain questions were not answered with justices.
- ✓ All the limitations of primary data are applicable to this study

DATA ANALYSIS

For the purpose of study respondents were selected randomly. The attitude of people towards demonetization was studied through collecting data from hundred respondents. The data for this paper was collected from 46 females and 54 males through questionnaires. Out of the total 100 respondents of the sample, 59 respondents are below 30 years, 21respondents below to age group 30 to 40, 10 respondents fall in the age group 40 to 50 and 10 respondents belong to the age group of above 50. At the initial period of demonetization, people were totally against the move of Central government. But, after two years of demonetization people started recovering. Introduction of 500, 200 and 2000 rupees notes now help people to meet their expenses as before 8th November, 2016.

FIGURE 1 : FEMALE AND MALE RESPONDENTS

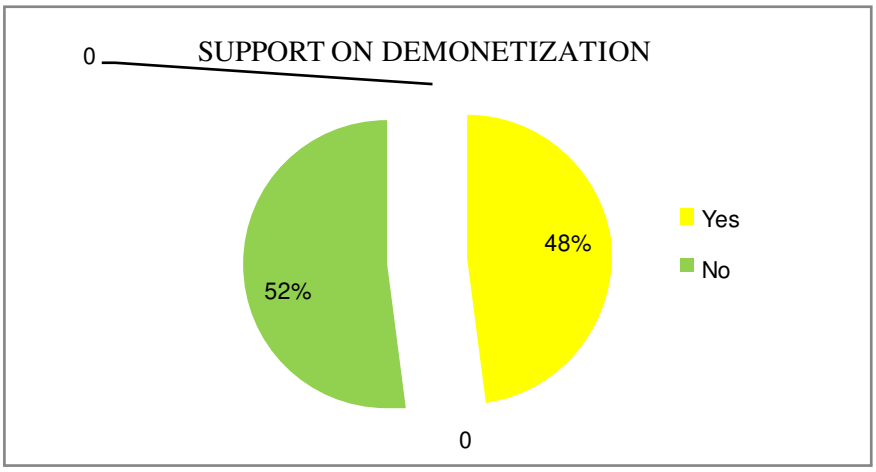


(Source: Primary Data)

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Vol-22- Issue-14-December-2019

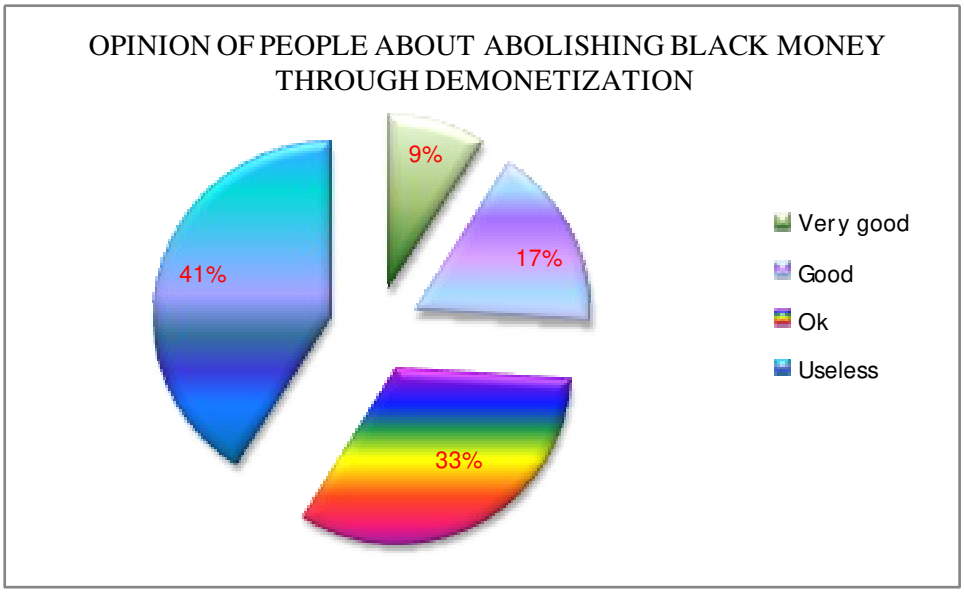
FIGURE2: RESPONDENTS' SUPPORT ON THE DEMONETIZATION DRIVE OF MODI GOVERNMENT



(Source: Primary Data)

From the information gathered with regard to this question, 52percentage does not support this move of the government whereas 48percentage had supported this. Thus, it is concluded that there is no much difference between the number of people who are against and fore demonetization.

FIGURE 3: OPINION OF PEOPLE ABOUT ABOLISHING BLACK MONEY THROUGH DEMONETIZATION



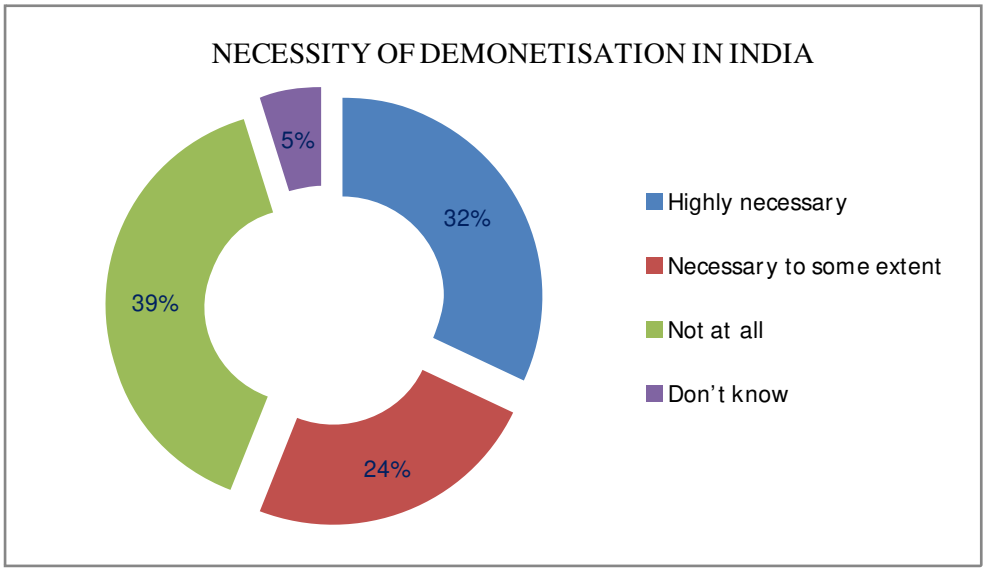
(Source: Primary Data)

Majority of the respondents are of the opinion that, in India there exist black money and corruption. 41% says that abolishing black money through demonetization is a very good move.

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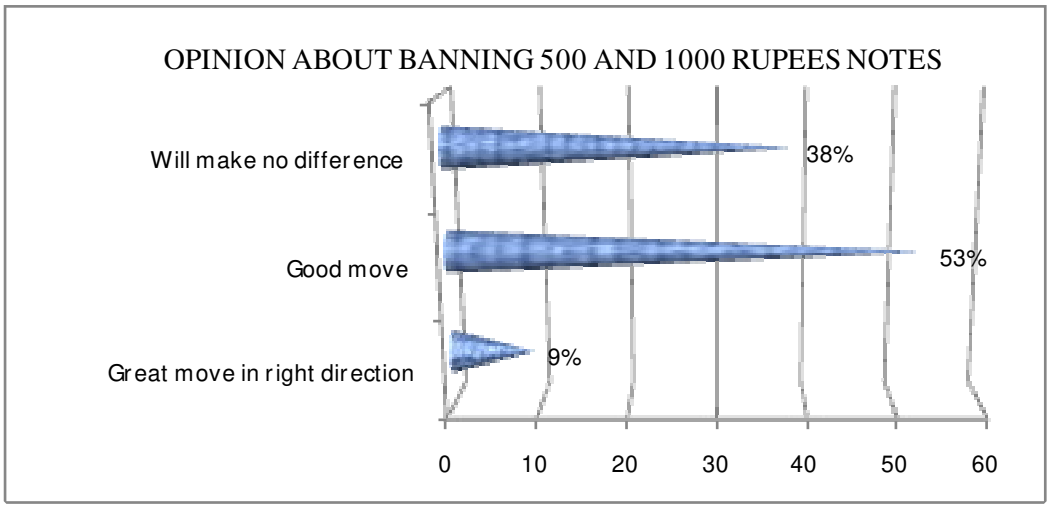
FIGURE 4: NECESSITY OF DEMONETIZATION IN A DEVELOPING COUNTREY LIKE INDIA



(Source: Primary Data)

From the response it was found that somewhat equal number of respondents felt that demonetization was necessary and not necessary in a developing country like India.Whereas,24% feel that demonetization was necessary to some extent and small fraction of respondents don't have an opinion about it.

FIGURE5: OPINION ABOUT BANNING 500 AND 1000 RUPEES NOTES



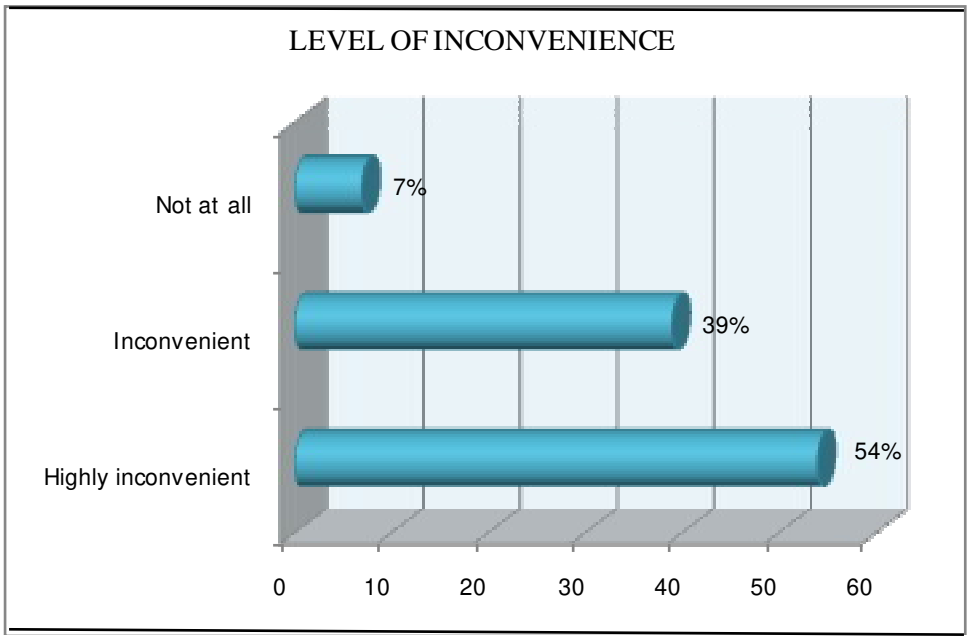
(Source: Primary Data)

Majority says that banning 500 and 1000 rupees notes were a good move. This is because black money was held in higher denominations. However, 38percentage is of the opinion that no much difference will be made in banning these notes.

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Vol-22- Issue-14-December-2019

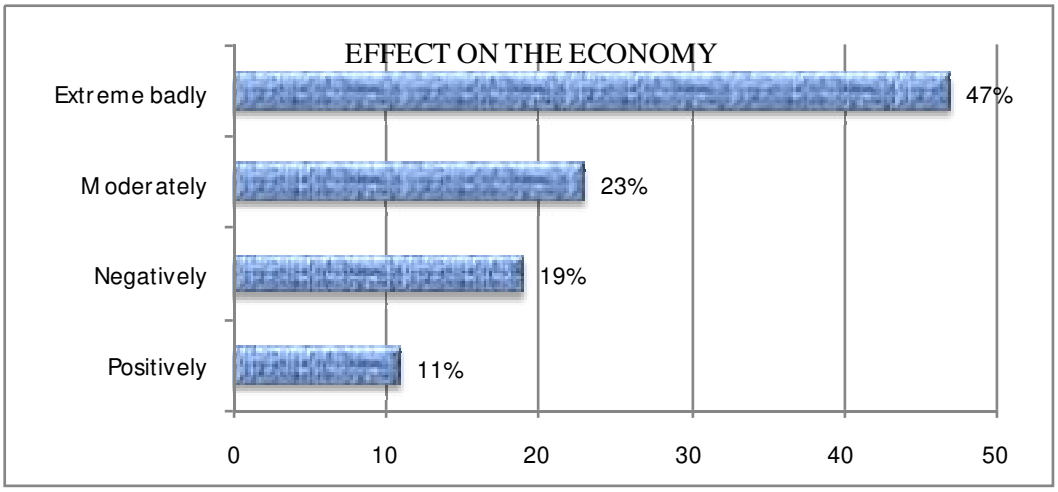
FIGURE6: INCONVENIENCE FACED BY THE RESPONDENTS IN THE FIGHT TO CURB CORRUPTION, BLACK MONEY AND TERRORISM AND COUNTERFEITING OF CURRENCY



(Source: Primary Data)

Majority of the respondents faced inconvenience during the time of demonetization. Only a small fraction of people did not face any inconvenience.

FIGURE7: EFFECT OF DEMONETIZATION ON THE ECONOMY



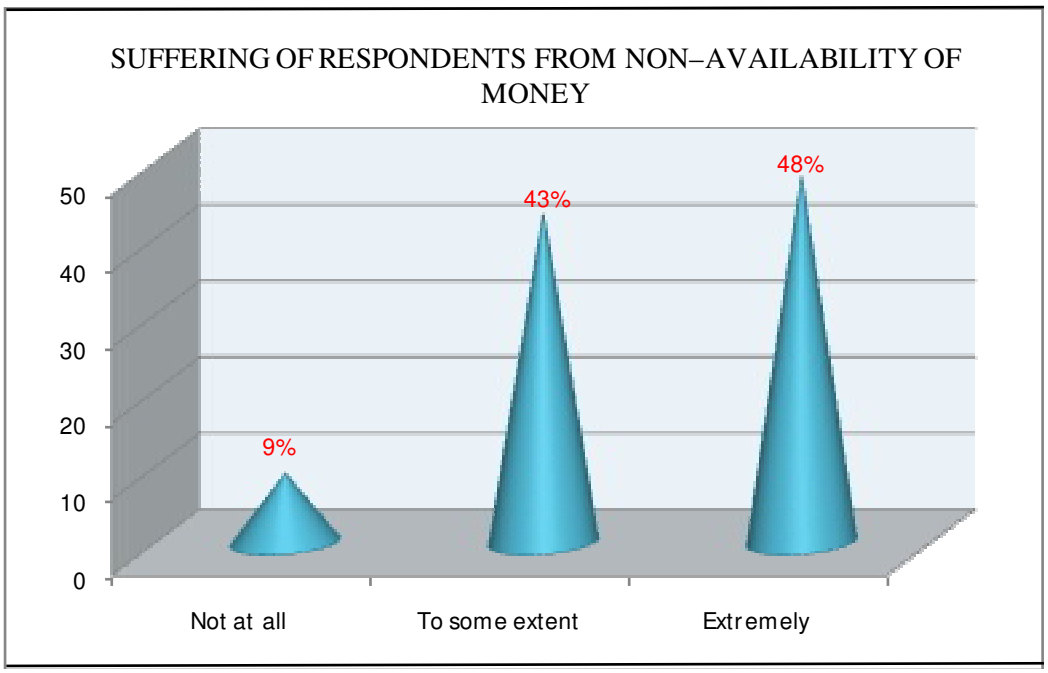
(Source: Primary Data)

Majority of the respondents are of the opinion that demonetization had extreme badly affected our economy

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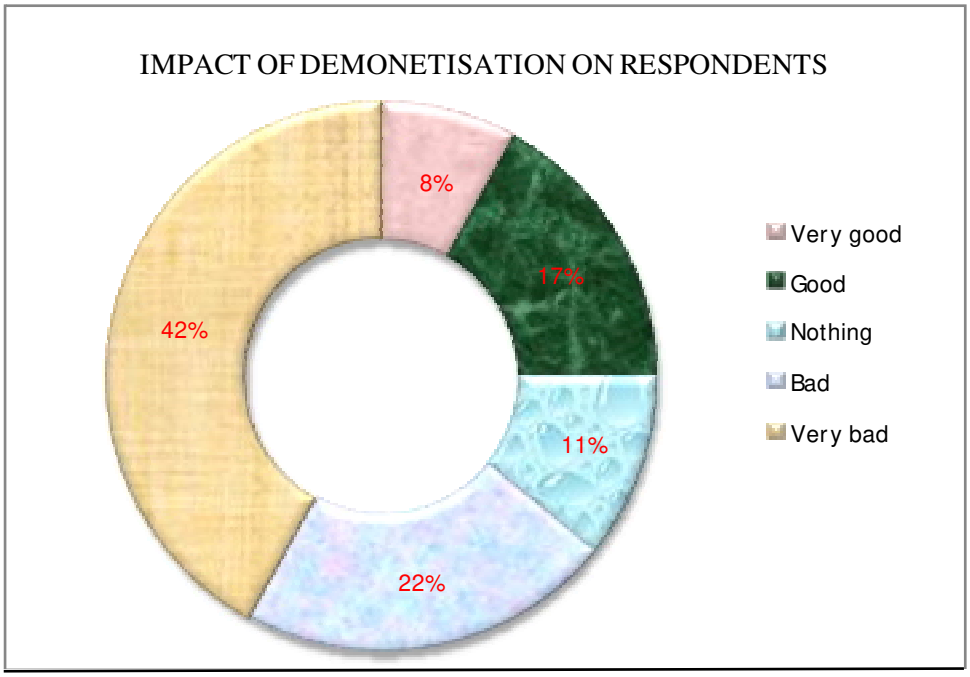
FIGURE8: EXTENT OF SUFFERING OF RESPONDENTS FROM NON–AVAILABILITY OF MONEY



(Source: Primary Data)

Large majority of the people suffered from the non-availability of money at the time of demonetization.

FIGURE9: IMPACT OF DEMONETIZATION ON RESPONDENTS



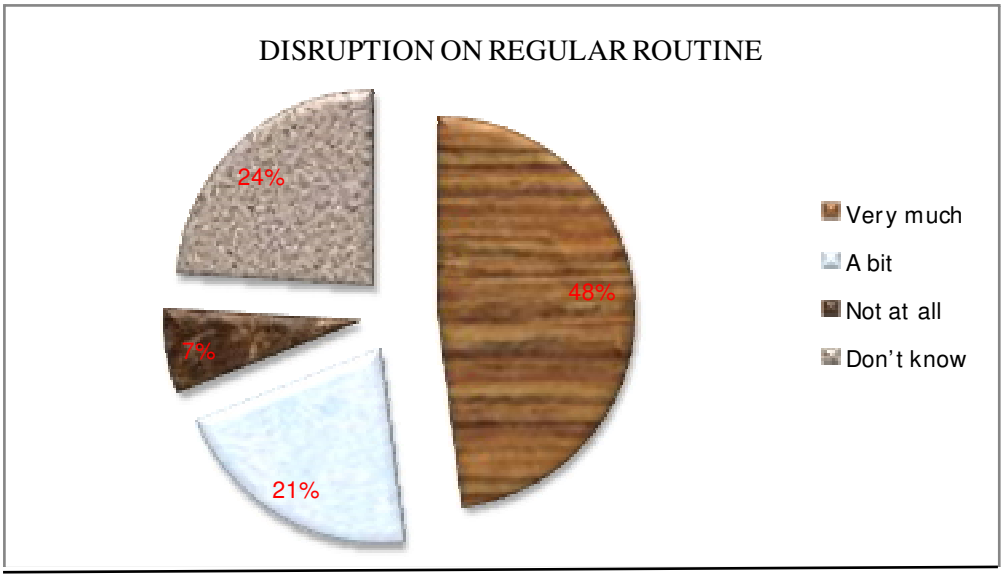
(Source: Primary Data)

Demonetization had very badly affected majority of the respondents.

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Vol-22- Issue-14-December-2019

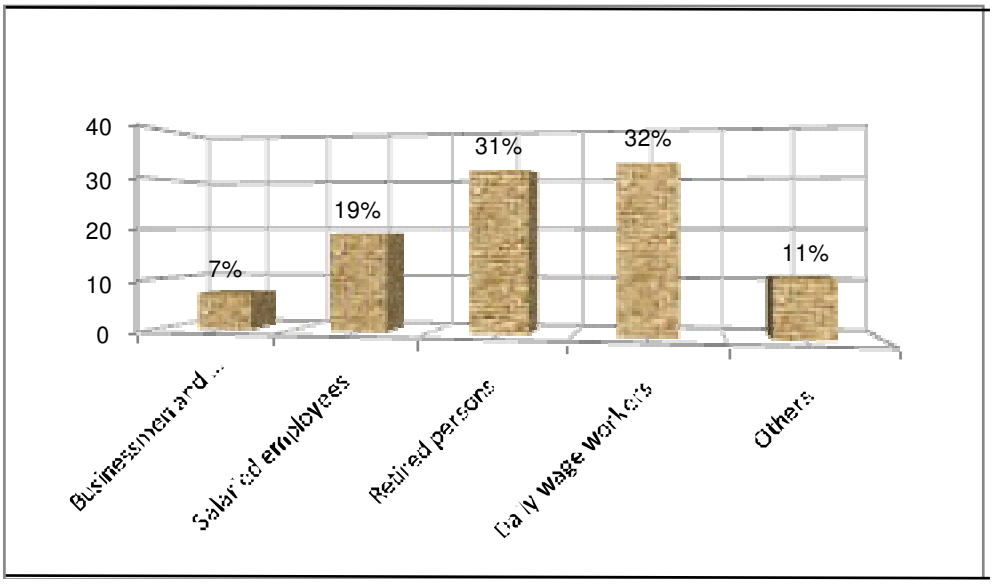
FIGURE10: DISRUPTION ON REGULAR ROUTINE OF RESPONDENTS



(Source: Primary Data)

Demonetization had disrupted regular routine of majority of the respondents.

FIGURE11: WORKING GROUPS ON WHOM DEMONETIZATION HAD AFFECTED THE MOST



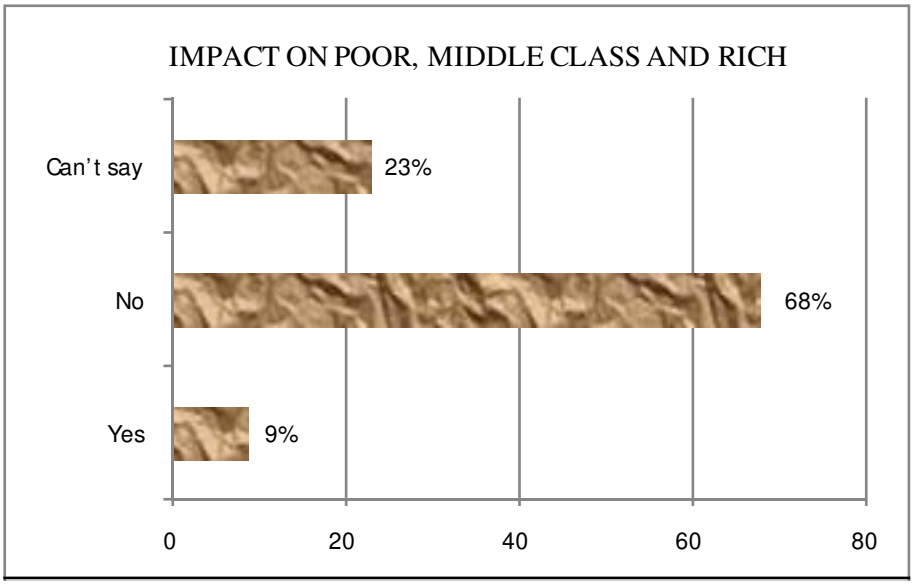
(Source: Primary Data)

From the information gathered with regard to this question, it was found that demonetization had mostly affected the daily wage workers

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Vol-22- Issue-14-December-2019

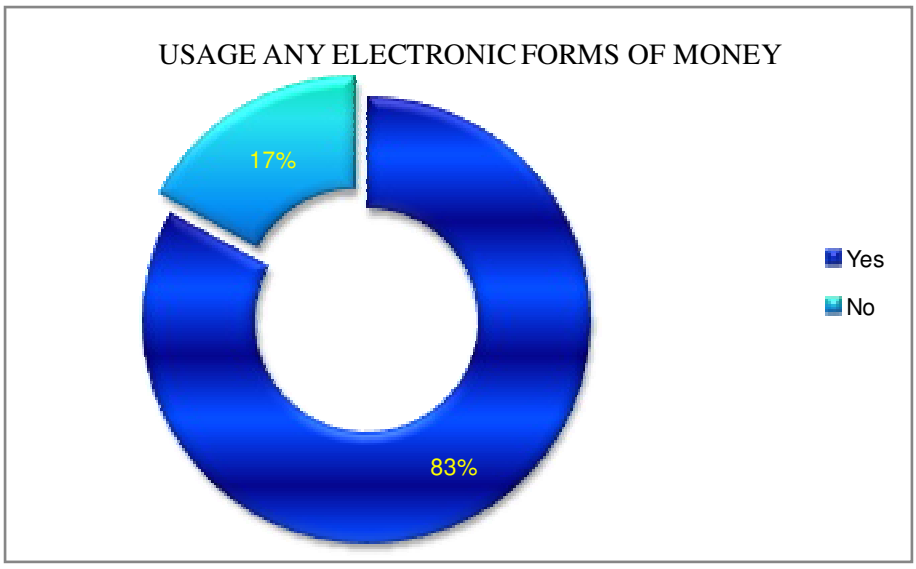
FIGURE12: WHETHER DEMONETIZATION HAD AFFECTED THE POOR, MIDDLE CLASS AND THE RICH EQUALLY



(Source: Primary Data)

Majority is of the opinion that demonetization did not equally affected the poor, middle class and the rich in India. It was the poor class who were affected the most

FIGURE 13: USAGE ELECTRONIC FORMS OF MONEY TRANSFER DURING DEMONETIZATION



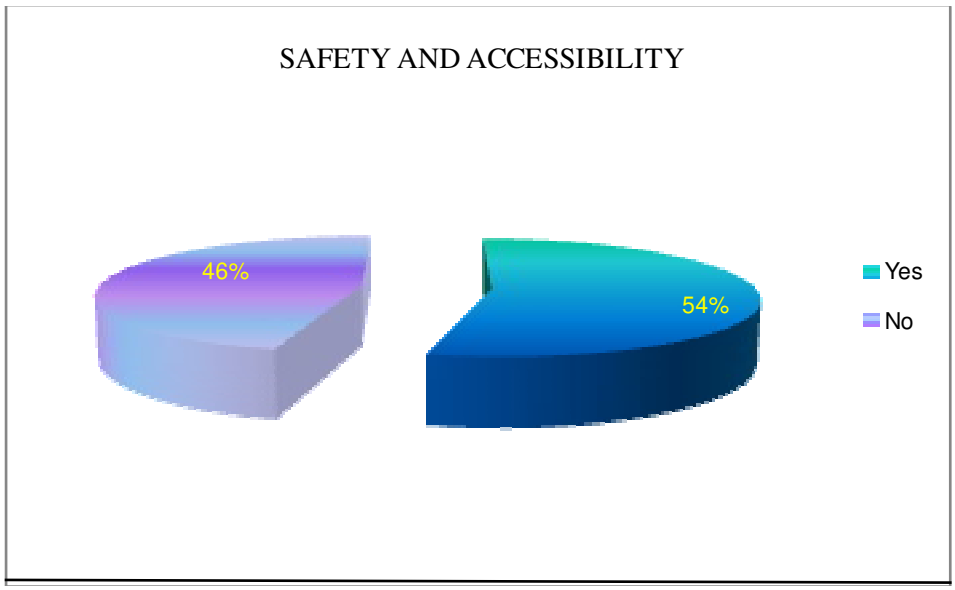
(Source: Primary Data)

Majority of the respondents used electronic forms of money transfer during demonetization.

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Vol-22- Issue-14-December-2019

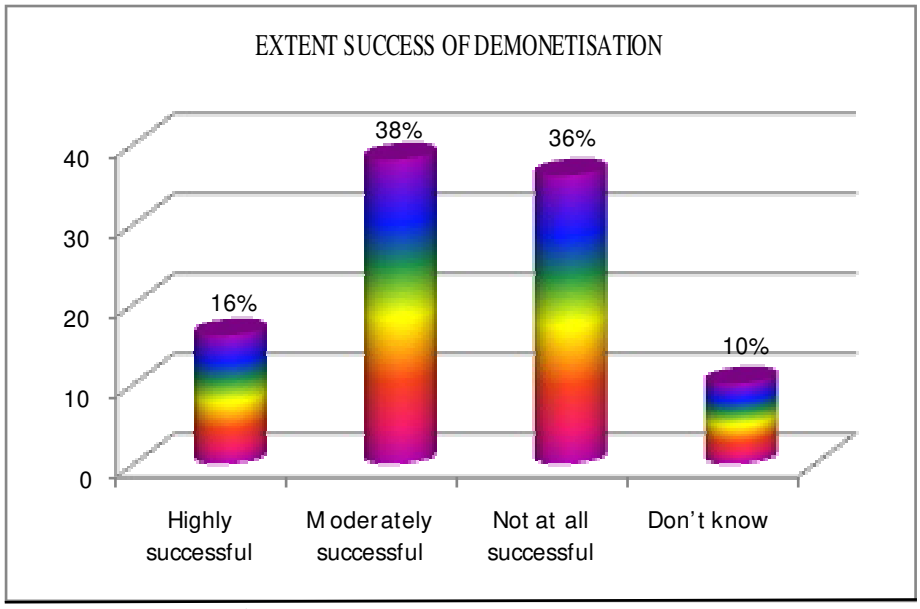
FIGURE 13: OPINION OF RESPONDENTS ON SAFETY AND ACCESSIBILITY OF THESE SERVICES



(Source: Primary Data)

Respondents are not much satisfied with the safety of these electronic forms of money transfer.

FIGURE 14: EXTENT OF SUCCESS OF DEMONETIZATION



(Source: Primary Data)

Majority of the respondents are of the opinion that demonetization was successful. However, 36% of the respondents are of the opinion that this drive of the central government was not successful

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Vol-22- Issue-14-December-2019

FINDINGS

- In the initial stage, demonetization was not completely accepted and supported by the common people.
- Demonetization was not that necessary in a developing country like India. This move of the government had affected our economic growth.
- People in the nation faced many inconveniences during the period of demonetization due to less supply of currency. This reduced the purchasing power of the people.
- People in the nation faced many inconveniences during the period of demonetization due to less supply of currency. This reduced the purchasing power of the people.
- Banning 500 and 1000rupees notes were the right move because black money is mainly held in these denominations.
- People mainly depended on electronic modes of money transfer during demonetization even though they were not that safe.
- India's Gross Domestic Product or GDP growth rate has slumped down to 6.1 per cent in the January-March period, lowest in more than two years. This growth rate was unexpected as the Central Statistics Office earlier in January had estimated 7.1 per cent growth as compared to the 7.6 per cent in 2015-16. India lost its status as the world's fastest growing major economy.

SUGGESTIONS

- Government should take sufficient steps to cater the needs of people before implementing any such policies.
- The impact of such moves should be studied well by appointing a special committee comprising of experts in the various fields.
- In India only a small percentage of people hold black money and they belongs to high class group who is in the field of business and politics. Thus, actions that affect the whole nation should be avoided, especially for the proper growth and functioning of the economy.
- All black money is not in cash, only a tiny fraction is held in cash. Holders of black money keep their wealth in form of real estate, gold, deposits in foreign bank accounts and beenami transactions. The government may have used other measures to

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Vol-22- Issue-14-December-2019

obliterate black money to target holders of such unaccounted wealth and not on all citizens.

- Banks and other financial institution should provide assistance to both government and people equally, especially during the time of such situations.
- The needs of poor should be met with due importance while implementing such policies.
- People should make prompt payment of tax and other liabilities to the government, so that such actions or policies can be avoided to some extent.
- People should adopt electronic modes of payment, so that they can avail money or make payment any time from any part of nation.

CONCLUSION

So far it can be said that demonetization was a historic step of the government adopted for the benefit of our nation. Demonetization has caused grievous injury to all those honest Indians who earn wages in cash, transact in cash and save in cash legitimately. Demonetization though it has created some positive and some negative impacts on different sectors. Apart from positive benefits it created some inconvenience to poor sections of the society. In short run also we could easily identify the decision taken will have far reaching impact on the economy

It is well understood that black money is detrimental to a country's economy. The current measure does not address the continued generation of black money through tax evasion.

Last but not the least digital economy is indeed the future of India but the country is not ready for such an immediate shake-up.

Thus, to conclude, we can say that demonetization is successful only when there is no more black money and equal distribution of wealth among all the people in our nation, which is yet not attained. However, of the Rs. 15.41 lakhs crore worth Rs.500 and Rs.1000 notes in circulation on November 8, 2016, when demonetization was announced, notes worth Rs.15.31 lakh crore has been returned. This meant just Rs. 10720 crores of the currency did not return.

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