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DEMONETISATION-A FLING TO INDIAN ECONOMY

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ABSTRACT

Demonetization is a word or an action that has clipped up the Indian economy. It is a sudden stop in terms of currency availability. As around us we can feel the positive and negative vibes similarly demonetization has build up a positive as well as negative impact on our Indian Economy. This paper basically highlights what demonetization has brought in our economy. Paper deals with various issues, aspects and opinion regarding demonetization. The paper brings in the limelight various driving factor of demonetization, analyze the factors and evaluates citizen reaction for the same. Apart from this paper focus on the real impact that our economy is facing in course of demonization and the impact that economy will face after demonetization.

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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 basically a liquidity shock, a sudden stop in terms of currency availability. It creates a situation where lack of currencies jams consumption, investment, production employment etc. Demonetization for the citizens mainly means that Reserve Bank of India has withdrawn the old 500rs. and 1000rs. Notes as an official mode of payment. Demonetization is just apart of comprehensive strategy to tackle the major problem of corruption and generation of black money. Eliminating 85% of the value of the currency with the public was a shock but this shock was implemented with a view of "Short Term Pain with Long Term Gain".

Aims of Demonetization

Demonetization is not a day plan that is discussed and implemented. It was a plotted plan several month before, there

were ample of people who were employed and asked to look in this matter and were ask to draw the real effect of demonetization and then the really shock was implement with crucial and way length planning. Thus it has few objectives-why demonetization:

- To Tackle the problem of black money in the Economy
- To lower the cash circulation in the country, which is directly related to the corruption in our economy?
- To eliminate the fake currency and doddy funds which have been used by terror groups to fund terrorism in India.
- The move is to scoop up more than 5 lakh corers of black money from the economy.

Factor that Create an Impact of Demonetization in the Indian Economy

Demonetization is a generation's memorable experience and is going to be one of the economic events. Its impact is felt by every citizen and even by the economy. The factor that create an impact of demonetization in the economy are:

Liquidity Shock: Demonetization is a liquidity shock to the economy because it disturbs all the economic activities.

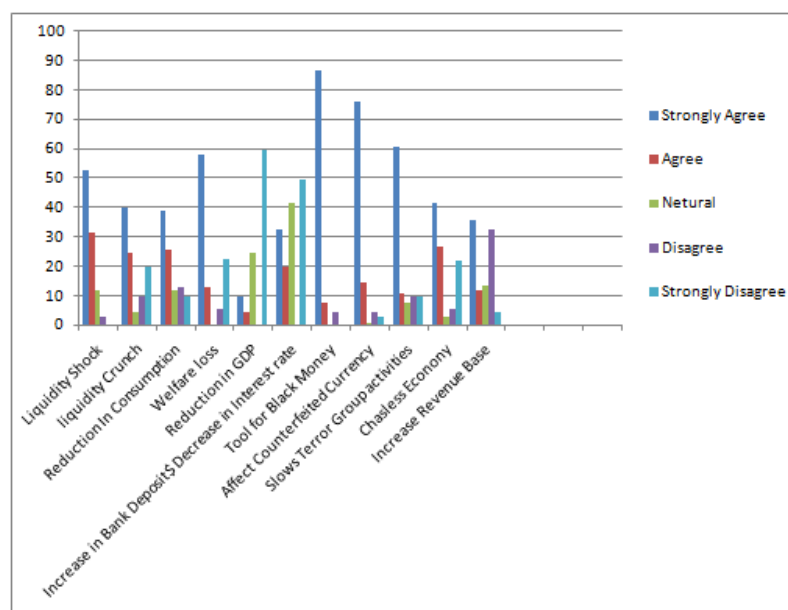
Liquidity Crunch: Liquidity crunch symbolizes short term effect; Demonetization has led to shortage of currency in the economy. Efforts were done and are continuously been done to replace 500rs. And 1000rs. Notes by 2000rs notes in the economy. It was traced that 10000 mu units of notes were printed and replaced, but still that stringiness' could be felt in the economy.

Effects Consumption and Chain reaction Follows: Demonetization also led towards decrease in consumption as there was shortage of money supply and people want to hold money rather than spending, thus it leads to chain reaction where fall in consumption leads to fall in demand for goods falling production which leads to fall in employment thus fall in growth of economy.

Tabular Representation

Sr.No	Questions	Strongly Agree	Agree	Netural	Disagree	Strongly Disagree
1	Demonetization is a liquidity shock to the Economy	53	32	12	03	0
2	Demonetization leads to Liquidity Crunch (Short term effect)in the economy	40	25	05	10	20
3	Demonetization leads to reduction in Consumption leading to reduction in production, employment etc	39	26	12	13	10
4	Demonetization leads to welfare loss to the citizen who use cash for their routine transaction	58	13	00	06	23
5	Demonetization will reduce India's GDP	10	5	25	0	60
6	Demonetization will lead to increase in Bank Deposit and decrease in interest rate	33	22	42	05	0
7	Demonetization is serving as a tool to fight against black money	87	08	00	05	00
8	Demonetization will render its impact on counterfeited currency	76	15	01	05	03
9	Demonetization will slow down the terror group activities	61	11	08	10	10
10	Demonetization will drive Indian Economy as Cashless economy	42	27	03	06	22
11	Demonetization will also increase the revenue base of the Indian economy	36	12	14	33	05

Graphical Representation



Welfare loss to the Citizen: Indian Economy constitute mainly of people who are wage earners, laborers, small traders etc who use cash frequently, this section will lose income in absence of liquid cash. Thus cash shortage will compel firm to reduce labor cost and thus reduce income to these section of people.

Reduction in GDP: India is claimed to be fastest growing economy but due to reduction in consumption, production, employment, investment etc it will adversely affect India's GDP.

Impact on Bank Deposits and Interest Rates: Bank Deposit of temporary period of time will be increased not only bank deposit but the amount in different type of accounts will also increase, this is basically done by the people to mere convert their old currency with the new once. During this phase the bank will reduce the interest rate as it has to pay interest on a very huge amount as compare to earlier so it will lead to reduction in interest rate but, this effect will last only for short term and long term.

Impact on Black Money: Black money renders a very small portion of black money held in cash. Hence the black money countered by demonetization depends on the black money held

in form of cash. Thus but more or else it will really help the government to come back with more strong measures to fight back with black money.

Impact on Counterfeited Money: The good effect of demonetization will be felt on counterfeited or fake currency

that are in circulation in the economy. Demonetization serves as a cleaning agent of fake currency in the economy.

Slowing down the Terror Activities: as major of the Indian currency along with the counterfeited currency was utilized by the terror group for various terror activities in India this step of demonetization has slow down their activities and has put them in trap as it erodes the fake currency utilized by them.

Cashless Economy: it is said that demonetization will drive the Indian Economy towards cashless economy, where people will prefer to make payment and receive payment in digital form. This will help to trace circulation of money in the economy. And will also increase the transparency in the banking system.

Increase in Revenue base: Demonetization serves as a medium to establish transparency in banking system, apart from that it has a driving move of making Indian Economy Cashless which ensure that all the transaction undertaken by an individual, firm or an industry will reflect their money status i.e. income so in turn they need to pay tax accordingly. Thus tax evasion will be minimized.

Research Methodology

- **Research type :** Descriptive
- **Sources of data:** Primary and secondary data.
- **Survey method:** Questionnaire
- **Types of questions:** Open ended
- **Sample size:** 100
- **Sampling method:** Convenience sampling (Non Probability Sampling)

Limitations of Study

The survey is subjected to bias and prejudices of respondent. Hence 100% accuracy can't be assured. Apart from that the research work is limited to the area of Vapi City only.

Data Analysis & Interpretation

As discussed above we have analyses various factor that has its effect on demonetization fully or partly.

Interpretation

Demonetization is hampering the Indian economy and will continue to do so for a quarter. Demonetization has both positive and negative impact on the Indian Economy. They are

- Majority of the citizens agree with the fact that sudden announcement regarding demonetization was liquidity shock for the citizen because it interrupted the entire economic transaction.
- Large chunk of the people feels that demonetization will have a short term impact on the economy and its working but a few citizen also feels that it will yield benefit only in long run.
- It was observed that 65% of the people feels that demonetization has curtail their consumption and thus which has saturated the demand followed by decrease in production and increase in unemployment

- The daily wage earners are highly affected section of the society because due to demonetization industry have stopped or slow down there process and thus there is low requirement of contracted laborers and thus they become moneyless in the economy.
- 95% of the citizen completely agrees that demonetization has served as a tool to bring up all the black money held by the people in various form.
- It was estimated By Reserve Bank of India that there is high circulation of counterfeited currency in the economy and with this demonetization 81% of the people realize that people associated with fake currency will not be able to carry forward their activities at least for a year or two.
- 72% of the citizen says that enemies of the country and the terror group will not be able to carry forward their activities as all the money will be on record now.
- India is going to start up with the new phase of Cashless Economy says 69% of the poll. Cashless Economy will increase the transparency in all the economy activities and thus will also increase revenue base of the country by keeping track record of all activities carried on.

Conclusion

Demonetization was really a strategic and a well planned move. Decision was taken mainly to curb the illegal use of high denomination of currency which was used in the economy for corrupt dealings. However with the latest round of demonetization the common public and the banker were facing hardships but overall they agreed that his hardship is going to yield benefit in future. It will really boost up the Indian Economy and will lead it towards an emerging super power by eliminating various hurdles that come forward in its development. Thus demonetization is having two side like a coin positive and negative but if studied in detail the positive aspects are more stronger and appealing than the negative one's, rest lies on the perception of the individual.

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