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## The Demonetisation Effect: A Conceptual Study

Prof. Ravinder Kaur  
Assistant Professor (MBA),  
GGS College of Modern Technology,  
Kharar, Punjab, INDIA.

**Abstract:** Indian government has taken a very bold decision on note ban on 08/11/2016. The paper discusses about the move of demonetisation taken by Central Government of India on 8th November, 2016 with respect to its objectives, effects, problems due to this as well measures adopted by Govt. of India. This study will help us to know about the positive and negative impact of demonetisation. This study is purely based on secondary data, which is collected from news papers, magazines, websites from internet, some useful books related to topic etc.

**Keywords:** Demonetisation, reasons of demonetisation, effects of demonetisation.

### I. Introduction

Demonetisation is a process of removing a currency from general usage or circulation of money in a country. Demonetisation 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. Money is the life blood of every economy. With the growth of civilization and mankind, the needs of human beings increased. All activities such as production, exchange, distribution, services etc. form an economy. It is called formal economy. An informal economy is neither economic activity/activities that is neither taxed nor monitored by Government, contrasted with a formal economy. Presence of corruption, black money, counterfeit currency, poor governance etc. promotes and establishes parallel economy.

### II. Demonetisation in India before November, 2016.

The act of demonetisation 2016 is not happening for the first time in India, but before, it has happened twice, first in the year of 1946 and then in the year of 1978. In January 1946, Rs1,000 and Rs10,000 banknotes were withdrawn but the same Rs1,000, Rs5,000 and Rs10,000 notes were reintroduced in 1954, and were again demonetized in January 1978. The second demonetisation has taken place in the year of 1978 by the Janta Party government. It had decided to withdraw Rs1,000, Rs5,000 and Rs10,000 notes by issuing an ordinance on the morning of 16 January that year. The objective behind the all the acts of demonetisation happened in past and happened recently is common reduction of black money, corruption and removal of fake currency.

### III. Demonetisation- November, 2016

On Tuesday, 8th of November, 2016 Prime Minister of India, Narendra Modi announced the demonetisation 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 demonetisation of 500 and 1000 rupees 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.

### IV. Objectives of Demonetisation

The main objectives of demonetisation are:

- To promote a Cashless economy
- To eradicate counterfeit currency
- Eliminate black money
- To combat corruption
- To combat inflation
- To fight against terrorism
- To stop money laundering activities and so on

## **V. Review of Literature**

Sunita (2014) in her research study attempted to get insight about the reasons as well as measures adopted by the government on demonetisation that was implemented in Indian context. It was a conceptual study based on secondary sources. 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 demonetisation 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. Mohd. (2016) studied about the significance as well as challenges of demonetisation of currency notes. Secondary data was used for this study collected from various newspapers as well as websites. The researcher concluded through the study that no doubt this move was going to disturb the routine life of 'Aam Aadmi' (common man of India) influencing largely the unorganized sector including organized sector up to a limited extent but the real consequences of move will have bigger implications on the Indian economy as a whole in the long run. Mukhrjee et al. (2016) studied about the impact of the present government move for demonetisation on the credit availability, government finance, spending and levels of various activities. The researchers stated that in a very short period there would be more serious affect on persons earning income in cash as well as spending in cash while impact will be up to a lesser extent on those earnings in non-cash form but spending in cash. Each sector backing demand by cash along with the real sector especially the unorganized one will much adversely effected in very short run time. In case of short term effect having complete replacement, an immense strengthening of informal sector credit market would be seen in the rural market and there would be adverse affect on construction sector. The medium term impact would produce results in terms of enhancements in deposits in the economy. 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. Indian govt. just focused on making committees rather than to implement it. The study concludes that laws should be implemented properly to control black money in our economy. Indian government has taken a very bold decision on note ban on 08/11/2016. The paper discusses about the move of demonetisation taken by Central Government of India on 8th November, 2016 with respect to its objectives, effects, problems due to this as well measures adopted by Govt. of India. This study will help us to know about the positive and negative impact of demonetisation. This study is purely based on secondary data, which is collected from news papers, magazines, websites from internet, some useful books related to topic etc.

## **VI. Measures adopted by Government**

A lot of measures have been adopted by the honorable government for smoothening the way of demonetisation policy. Some of such measures are as follows:

- In a very short period, the government has issued a new denomination note of Rupees 2000 and after that the new note of existing denomination of Rupees 500 has been issued in a very short span of time.
- As stated by our honorable finance minister Shri Arun Jately, adequate money has been provided to bank with existing as well as new issued notes to overcome the demand from people.
- The government has well clarified that the old currency notes will be in operation at public services places such as hospitals, for railway and bus ticket payment, petrol pumps etc. for a limited period and even toll tax was completely removed for a small period to smoothen the transport.
- A limit on withdrawn of money has been imposed for a limited period whether it is through ATM's or banks so that every citizen could accomplish his/her basic requirements.
- Government is promoting the cashless transaction and in this direction, government has taken initiative with some incentives such as insurance, e- payment discount offer etc. and recently lucky winners for each week using e-payment.
- Central government as well as state government has made efforts to make their offices cashless that deal with public.
- Security official has been provided as well as enhanced in each bank as well as ATM's wherever needed to avoid the violence.
- Government has fastened the process of making technical changes in the ATM's to fit it with the new notes.
- To overcome the commission agents as well as black money holders, security forces in civil as well as in dress and CID officials as well are on their way and results are impressive.

## **VII. Suggestions**

No doubt, the government is making its efforts to relief its citizens and coming with innovative ideas. But there are some basic requirements as mentioned in the problems as well as shortcomings which need considerable focus on the behalf of our honorable government. Following are some suggestions which must be adopted to fulfill the need of the hour and overcome the chaos:

- ❖ Proper tracking of people is must so that needy could be provided money and commission agents could be arrested.
- ❖ More and more supply of money in each bank is must to fulfill the demand of our citizens.
- ❖ Efforts must be made to make each ATM's operative and money should be there in ATM's.
- ❖ There must be effort to equip each government office with cashless machine so that people can make their e-payments smoothly.
- ❖ For networking purpose, use of satellites can be made instead on relying on towers only so that people can get benefits of e-payment apps.
- ❖ More efforts are needed to provide the huge amount meant for special occasions after getting clarified satisfactory about the same.

### VIII. Conclusion

Demonetisation though it has created some positive and some negative impacts on different sectors but in long run it definitely will have positive impact in controlling black money and fake money. The move taken by the present central government as announced by our Honourable PM is the biggest move towards demonetisation in Indian history in itself. No doubt, Indian citizens have suffered a lot and suffering to some extent even today. Unorganized sector is facing much trouble due to lack of cash with people. Most of the sector has its impact but all the issue mentioned above stand for very short period to short period only. The real picture of India will definitely change and Indian economy will emerge as one of the strongest economy in the world in medium to long period only as forecasted by our PM. So, the Indian citizens will have to wait more for the good days and need to strongly support the PM great move of demonetisation.

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