

## Demonetization's Effects: A Study Focused on the Ambala District

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### Abstract

Demonetization is the procedure of eliminating a monetary unit's lawful tender position. Each occasion the monetary system is modified, demonetization is required. A new currency unit must be introduced to replace the previous one. 200 participants were randomly chosen for samples from the Haryana district of Ambala. Four factors—gender, age, annual income, and occupation—have been found to significantly correlate with the effects of devaluation. Demonetization's role in destroying black money came in first place among respondents' rankings, which were then followed by the elimination of social evils including terrorism and corruption.

**Keywords:** Demonetization; monetary system; black money; India

### Introduction

Demonetization is the procedure of eliminating a monetary unit's lawful tender position. Each occasion the monetary system is modified, demonetization is required. A new monetary unit must be introduced and the previous one discarded. Currency devaluation is the process by which a certain coin or precious metal is downgraded as a form of legal money. This occurs if a specific currency of origin or a newer currency enters into use. Countries demonetize their domestic currency for a variety of causes. Inflation control, fighting corruption, and discouraging the use of cash are a few of the causes. Demonetization is the process of totally replacing old cash with national currency or implementing new notes and coins minted with the same currency.

The two largest demonetization notes, the 500 and 1000 rupee, were decided upon by the Indian administration in 2016. 86% of the nation's cash was in the form of these notes. The government

was established to combat tax evasion, get rid of the black money that had accrued as a result of transferring money and terrorist endowment schemes, and and foster cash-less society. Large amounts of black money that had amassed through parallel cash systems were forced to be converted at banks, where the bank was legally compelled to obtain tax info from the entity and apply a tax penalty of 200% if the company could not show proof of paying any taxes on the cash.

### **I. India's demonetization**

India had 17.77 lakh crore (US\$260 billion) in total money in circulation as of October 28, 2016. According to the Reserve Bank of India's annual report from March 31, 2016, there were 16.42 lakh crore (\$240 billion) worth of banknotes in circulation, approximately 86% of which were 500 and 1000 rupee notes, totaling 14.18 lakh crore (\$210 billion). According to the study, there were 2,203 crore banknotes in use or 24% of the total 9,026.6 crore banknotes.

The Indian government took a significant step by announcing that as of midnight on November 8, 2016, the 500 and 1000 rupee notes will no longer be recognized as legal money.

New notes of 500 rupees and 2000 rupees will be released by the RBI and put into the currency on November 10th, 2016. The legal currency status of notes worth 100, 50, 20, 10, 5, 2, and 1 rupees will not change as a result of this ruling. The PM had implemented this move in an effort to combat fraud, black market transactions, and corruption.

### **I. The history of Indian demonetization from 1946 until 2016 The initial currency embargo**

The 1,000 and 10,000-dollar bills were taken out of circulation in 1946. Since average people could not access coinage with such high denominations, the restriction had little effect.

Nonetheless, both of the notes were reissued in 1954 together with the addition of an additional 5,000 pieces of currency. In 1934, 500 and 1,000 notes were released, and four years later, in 1938, 10,000 notes. The second was when India's then-Prime Minister Morarji Desai put a ban on the circulation of the 1,000, 5000, and 10,000 currency notes. The ban's main purpose was to reduce the nation's production of black money (K. Veerakumar (2017), "A Study on People's

*Impact on Demonetization*”, *International Journal of Interdisciplinary Research in Arts and Humanities, Volume 2, Issue 1, Pp 9-12. - Google Search, 2015).*

Demonetization action in November 2016: On November 8, 2016, the Indian government took action and made the decision to simply ban the two notes with the largest denominations, the Rupees 500 and 1000, which account for 86% of the country's total cash supply chain(• *Sunil (2017), “Demonetization at Glance in Indian Scenario: A Conceptual Study”, International Journal of Applied Research, 3(2), Pp 04-08. - Google Search, 2016).*

## **II. The Need of the study**

The study was necessary because of the rise in counterfeit Indian currency notes of increasing denominations.

- Unaccounted funds are frequently used in illicit and unscrupulous operations.
- High-value notes are used in laundering funds, racketeering, and other illegal activities, according to the Financial Action Task Force, an international organisation that studies how the international financial network is utilised by criminals.
- The highest banknote denomination in the United States is \$100, while in the United Kingdom it is £50.
- The highest value note is roughly 50–100 times that of the one dollar or one pound note.
- In India, the largest note ever released was 1,000, which was 1,000 times smaller than the lowest note ever produced, which was 1.

## **III. Review of Literature:**

In their recent paper from the NIPFP Working Paper Series (2016) No. 182 on November 14, 2016, the Tax Research Team presented reasons in favor of demonetization. This working paper's major goal was to examine how demonetization affected the Indian economy. This study examined how demonization affected government finances, credit availability, consumption, and activity levels(Rao et al., 2011).

In a 2010 study titled *The Parallel Economy in India: Origins, Impacts, and Government Initiatives*, Sukanta Sarkar concentrated on the causes and effects of black money in India.

According to the report, the Indian Political Structure, or lack of strong political own will restrict the black money, is the main reason of the production of black money(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.* - Google Search, n.d.).

The study comes to the conclusion that regulations need to be appropriately applied in order to regulate black money in our society.

In his work Devaluation of Currency Notes: Importance and Difficulties, Mohd. (November 2016) looked at the significance and difficulties of demonetizing currency notes. The study's findings led the author to the finale that this act would ultimately have a greater impact on the Indian economy as a whole(Mohammed, 2012).

In her study "The Parallel Economy in India: Causes, Impacts & Government Initiatives," Sunita (September 2014) looked at the causes of and government responses to the demonetization that took place in India(• Sunita (2014), "Demonetization of Indian Rupee against US \$: A Historical Perspective", *Discovery, 23(78), Pp 108- 112.* - Google Search, 2014).

She came to the conclusion that the growing trade deficit, the 1965 war among India and Pakistan, the Gulf War, the political and financial steadiness, shrinking reserve currencies, the withdrawal of FIIs and the strengthening of the dollar were the main drivers while behind move for cashless economy by the government in India. The government's responses included the obligation of quantitative limitations, the requirement for export grants, the organisation of a currency stabilisation fund, and other metrics (Net Overnight Open Position Limit)(Mehta et al., n.d.).

#### **IV. Research Objectives**

- To explain India's demonetization idea.
- To examine the participants' demographic make-up in Haryana's Ambala Distt.

- To determine how demonetization affects people.
- To calculate the demonetization's likely effects.

## V. Research Methodology

The research's chosen study region is the Ambala District. By means of well-structured questionnaires, primary data is gathered. 200 respondents in the Ambala District were randomly chosen for samples from 200 respondents. A primary table was created after the information was examined. The data were subsequently processed employing statistical methods for analysis purposes. Simple percentage, the Chi-Square test, and the ranking method are statistical instruments.

A hypothesis test is a conclusion that connects a different variable to a dependant variable and may be investigated using scientific procedures. The formulation of the hypothesis ensures that if one is taken, the other is denied, and vice versa.

To determine the correlation between demographic factors and use pattern, the  $\chi^2$  test of independence is used. The following theory has been constructed with the study's goals in mind.

The null hypothesis states that there is no correlation between respondents' educational background, their family structure, and the degree of the impact of demonetization.

Alternative Hypothesis  $H_a$ : There is no substantial correlation between respondents' educational backgrounds, their family structure, and the degree of the impact of demonetization.

## VIII. Study's Restrictions

1. Because the study is limited to the Ambala District's chosen sample, its findings cannot be generalized.
2. The statistical techniques employed to assess the data have limitations of their own.
3. All of primary data's drawbacks are present.

**IX. Examining and Interpreting People's Demographic Information:**

Table No. 1 details the demographic makeup of the research respondents. From out 200 respondents, it was discovered that the majority (62%) of men, (57%) of respondents in the 26–50 age range, (61%) of respondents with a high school diploma or higher, (46%) of respondents who are self-employed, (55%) of survey participants with annual incomes between ₹1,000 and ₹250,000, and (64%) of survey participants who are members of joint families, are all male.

| Table-1: Demographic Profile of the Respondents |                         |               |
|-------------------------------------------------|-------------------------|---------------|
| Factors                                         | No of Respondents N=200 | Percentage(%) |
| <b>Gender</b>                                   |                         |               |
| Male                                            | 124                     | 62            |
| Female                                          | 76                      | 38            |
| <b>Age (Years)</b>                              |                         |               |
| Less than 25                                    | 28                      | 14            |
| 26 to 50                                        | 114                     | 57            |
| 50 & Above                                      | 58                      | 29            |
| <b>Educational Qualification</b>                |                         |               |
| Illiterate                                      | 18                      | 9             |
| Up to School Level                              | 122                     | 61            |
| Graduation Level                                | 43                      | 21.5          |
| Graduation & Above                              | 17                      | 8.5           |
| <b>Occupation</b>                               |                         |               |
| Housewife                                       | 25                      | 12.5          |
| Business                                        | 92                      | 46            |
| Employee                                        | 55                      | 27.5          |
| Professional                                    | 28                      | 14            |
| <b>Annual Income</b>                            |                         |               |
| up to 1lac                                      | 36                      | 18            |
| 100000 to 250000                                | 110                     | 55            |
| Above 250000                                    | 55                      | 27            |
| <b>Type of Family</b>                           |                         |               |
| Nuclear Family                                  | 72                      | 36            |
| Joint Family                                    | 128                     | 64            |

Investigation of the Connection Between the Respondents' Demographic Profile and the Effect of Demonetization: Table No. 2 shows the association between particular demographic factors and the participants' Degree of Cashless Economy Impact. It is evident that there is no strong correlation between academic achievement, respondents' family type, and the degree of the impact of demonetization because the estimated Chi-square value is smaller than the table value at the 5% level. The null hypothesis is therefore accepted.

It is evident that there is a substantial connection between sex, age, yearly income, occupation, as well as the degree of influence on demonetization, since the calculated Chi-square value is bigger than the table value at the five percent level. As a result, the null hypothesis is disproved.

**Table-2: Study of Relationship Between Demographic Profile of Respondents & Impact of Demonetization**

| Variables                        | Level of Awareness |          |      | Total | χ <sup>2</sup> | Table Value |
|----------------------------------|--------------------|----------|------|-------|----------------|-------------|
|                                  | Low                | Moderate | High |       |                |             |
| <b>Gender</b>                    |                    |          |      |       |                |             |
| Male                             | 22                 | 37       | 65   | 124   | 7.634          | 5.991       |
| Female                           | 24                 | 17       | 35   | 76    |                |             |
| <b>Age (Years)</b>               |                    |          |      |       |                |             |
| Less than 25                     | 8                  | 10       | 10   | 28    | 11.5           | 9.488       |
| 26 to 50                         | 34                 | 52       | 28   | 114   |                |             |
| 50 & Above                       | 24                 | 10       | 24   | 58    |                |             |
| <b>Educational Qualification</b> |                    |          |      |       |                |             |
| 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    |                |             |
| <b>Occupation</b>                |                    |          |      |       |                |             |
| Housewife                        | 13                 | 8        | 4    | 25    | 11.82          | 9.488       |
| Business                         | 33                 | 35       | 24   | 92    |                |             |
| Employees                        | 7                  | 23       | 25   | 55    |                |             |
| Professional                     | 5                  | 6        | 17   | 28    |                |             |
| <b>Annual Income</b>             |                    |          |      |       |                |             |
| 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    |                |             |
| <b>Type of Family</b>            |                    |          |      |       |                |             |
| Nuclear Family                   | 14                 | 40       | 18   | 72    | 3.598          | 5.991       |
| Joint Family                     | 36                 | 65       | 27   | 128   |                |             |

### Issues Affecting Individuals as a Result of Demonetization

The weighted average of each component related to the effects of devaluation is shown in Table No. 3 below. Demonetization, which kills black money, was voted top by respondents in the computed weighted average, following by the destruction of social ills like fraud and terror.

| <b>Factors/Rank</b>                                                                       | 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 options like e-wallets, online banking transactions, and the use of credit and debit cards have expanded, and this will lead to the development of a productive cashless architecture. Following the release of new currency notes, the industry is anticipated to quickly rebound.

## **X. Conclusions**

The government's decision to demonetize the highest value note has had a significant impact on the Indian economy. Demonetization was implemented in response to a number of issues, including tax evasion, the use of counterfeit money, and the financing of illicit activity. Several persons were depositing cash notes into bank accounts in excess of the permitted limits, which revealed unreported income liable to a higher tax rate and other penalties.

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