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Demonetization and its impact on business and finance

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Abstract

The November 8, 2016 demonetization decision in India generated a lot of demand for alternative money distribution methods and established the ideal environment for the nation to transition to a cashless economy. One of the effects of the demonetization of high denomination bank notes in India in 2016 is that the nation might move closer to having a cashless economy. For a variety of reasons and with varying degrees of success, several nations around the world are experimenting with cashless transactions in one way or another. This paper analyzes end-user perception in the Indian context while looking at international best practices. To better understand the numerous issues faced by consumers who make payments and conduct transactions, survey data is analyzed. What aspects, such as (age, gender, occupation, income levels, and issues), affect a customer's decision to conduct a cashless transaction? What are the main obstacles to doing a transaction without cash? What can the general public, banks and other financial institutions, authorities in charge of regulation, central banks, and governments do to hasten India's transition to a fully cashless society? Examination of these issues is done, and solutions are offered.

Keywords: Denomination, financial institutions, consumers, transactions

Introduction

Demonetization refers to the removal of any currency's legal tender status. Money units no longer have the status of legal tender. Demonetization is the act of robbing any money of its legal tender status. The units of currency won't be regarded as legal tender. A unit of currency is demonetized when its status as legal tender is revoked. The Indian government demonetized the 500 and 1000 rupee notes in November 2016. (Fully ban). These two largest denomination notes made up 80% of the available currency in the form of banknotes. The primary goals of the note ban are to stop the circulation of fake money, combat tax evasion, erase black money, stop the financing of terrorism, and push the nation toward a cashless society. Although the government's decision was made with the welfare of the country in mind, several issues remain, including whether the prohibition will genuinely reduce black money and, if it does, to what extent. What should this decision mean for the Indian economy? Indian economic growth would be positive or negative. Demonetization has also resulted in a decline in cash transactions in real estate and its growth. This will probably lower real estate costs and make it more accessible. The cost of real estate will decrease in the near future. Demonetization will bring India's parallel economy to an end and eliminate black money from the country's financial system. By taking this money out of the economy, corruption will also be naturally eliminated. A certain amount of the money supply will be cut back. Following demonetization, there has been a sharp increase in demand for gold and other precious metals because the nation's citizens tried to invest their illicit funds in gold in order to conceal them from the income tax division. But in the following two to three quarters, demand for diamonds and jewelry will decrease. Long-term financial and bullion market developments will be favorable, which may inspire confidence in Indian stock markets among foreign investors.

Affect of demonetization

It involves bringing the value of the money to zero. Demonetization has had a significant impact on the small retail sector, especially street vendors selling produce and vegetables who don't even have swiping machines. The real estate industry is scarcely impacted by it next. It is the one that depends entirely on money. People who were prepared to invest before November 8th just abandoned their plans because real estate will undoubtedly become less expensive as a result of demonetization.

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Impact on businesses

The demonetization push has had an effect on Indian businesses both directly and indirectly in terms of how it has affected demand, but the impact is primarily felt by small firms because they are heavily dependent on cash transactions. Since a significant amount of transactions involve cash for the purchase of raw materials and the payment of daily wage laborers, the labor-intensive industries, particularly agriculture and construction, have been hit.

Significance of the study

The study looked at every aspect of the economy and how many factors affect how it develops. What are the economic problems? They are those that obstruct the growth of the economy. What should we do to ensure that these factors support economic growth after demonetization? What are the factors that have a good impact on economic growth? What are the factors that have a negative impact? After conducting this research, we are able to identify the factors that are unfavorable and the areas in which we made mistakes that hindered the growth of the economy. What should we do to ensure that the economy develops quickly following this demonetization? how black money is eliminated from our economy. What causes the production of black money? The effects of black money on various social and economic segments and methods for reducing the antisocial element allow us to exercise control over it. What factors are responsible for the development of the economy, and how are we able to employ them effectively to address the issue of economic development? Additionally, it's crucial to note how we increased the number of taxpayers. The growth of the country depends on it most.

Scope of the study

The Indian people, Indian government, businesspeople, and consumers will all benefit from this study. The government will be able to learn about the potential state of the economy thanks to this study. The government will be assisted by this study in formulating policies that will enhance the economy. The Indian citizen will also benefit from this study since they will be able to make informed decisions about their income and spending because they will be aware of the current and future state of the economy. Any businessperson can make an intelligent choice in order to increase income and profit in the real world of the market. Finally, everyone would be able to understand how the note ban judgment will affect the Indian economy and markets.

Need of the study

The Indian government's decision of demonetization last year, 2016, is what gave this study its significance and necessity. The paper considers global demonetization attempts in the past as well as the reasons behind it in India and other countries. The purpose of the study is to determine how demonetization has affected India and other nations. The study investigates the success or failure of the demonetization.

Review of literature

Deepak & Goel, Amisha. (2022) ^[13]. Demonetization refers to cancellation of legal tender status of currency in circulation. Anticipating positive effects on the economy, nations often adopt demonetization policy. Government of

India adopted demonetization policy on November 8, 2016. Prime Minister Narendra Modi announced this policy while addressing the nation in his Mann Ki Baat speech on November 8, 2016. Under this policy, high denomination Indian currency notes of Rs. 500 and Rs. 1000 were declared to be no longer in use as legal tender which means that these notes were not be acceptable for transaction. After this, RBI announced the release of redesigned new currency notes of Rs. 500 and Rs. 2000 which were released on November 10, 2016 by RBI and continue to be in circulation since November 10, 2016. Demonetization in India was adopted to fight against various problems such as corruption, black or parallel economy, terror funding, fake currency, money laundering and hoarding, tax evasion etc. In this paper, we are trying to explore the impacts of demonetization on banking and economy and how far is this policy able to curb the above-mentioned problems.

Dr, Vinoth & D, Dilip. (2022) ^[15]. Demonetization is a tool to combat inflation, black money, corruption, and crime as well as to demoralize an economy dependent on money and promote exchange. All aspects of the economy have been impacted by the legislature's decision to prohibit the use of Rs. 500 and Rs. 1000 currency notes. It has a significant impact on the banking industry because banks serve as a central hub for distributing legal tender to meet all of society's needs. Banks are the main beneficiaries of demonetization. Customers endured significant hardships during the demonetization era in order to withdraw cash from ATMs and banks. The study concentrated on the effect of demonetization on banking services from the viewpoint of the client. Through a questionnaire, information was gathered from 150 banking clients in and around Coimbatore. Using descriptive statistics, Z-tests, T-tests, one-way Anovas, and Chi-square tests, the data were analyzed using SPSS. According to the study, the majority of respondents reduced the number of times they visited banks following demonetization while also believing that the quality of the services the banks were previously providing remained unchanged.

Girnara, Mona. (2020) ^[14]. The effects of demonetization on the Indian economy. Demonetization entails recovering the nation's legal tender. Demonetization has historically occurred in several countries around the world, including Ghana, Nigeria, Australia, the Soviet Union, Pakistan, and others. It has also occurred in India on occasion. The most recent demonetization occurs on November 8, 2016. Demonetization's primary goals are to minimize fraud, illicit market transactions, and corruption. My goal in this research paper is to analyze the historical context of demonetization in the world and in India, as well as the effects of demonetization on the Indian economy, including the value of the rupee, the stock market, the GDP, inflation, the impact on different societal groups and industries, the impact on the country's inflation, the impact on digital payments, and the impact on tax payers. The key finding is that demonetization has a mixed impact on the Indian economy, having good and negative effects on various sectors.

Chandrasekhar, Ghosh, and Patnaik (2017) ^[1]: The demonetization of high value Indian notes last year is covered in the book. The action was intended to eradicate corruption and black money, the book goes on to say. However, it produced only a few results and instead caused misery, economic disruption, and revenue loss. This book

makes an effort to investigate and evaluate the effects of demonetization on the various segments of the population in the nation. The book goes on to explain the demonetization process in more detail, including its main characteristics, its ulterior and operational motives, the experiences of other nations, the implementation, the ensuing chaos and issues, and the various economic sectors like agriculture, banking, industry, etc. The book also addresses the government's new cashless economy goal and the political motivation for the demonetization process.

Jain (2017) ^[2]: The book examines a number of aspects of demonetization, including the steps taken by the Indian government in relation to demonetization, the need for demonetization and remedies for it, key elements of the demonetization policy, favorable and unfavorable reactions to the policy, the effects of demonetization on various economic sectors, including agriculture, banking, industry, etc., the benefits and drawbacks of demonetization, and the future of demonetization (The Road Ahead).

In their article titled "An Exploratory Study of Business Students Perspectives on Demonetization in India: With Special Reference to Allahabad City," Shukla, Bal Govind and Gupta, Hariom (2018) ^[12]. They analyzed primary data for their study and came to the conclusion that the public actively supports any government activity aimed at combating corruption, black money, and other threats like terrorism and naxalism.

According to RBI chair professor Charon Singh (2016), this action will have both beneficial and negative effects on society. He came to the conclusion that this will improve India's ranking since it shows that our nation is committed to rooting out corruption. Additionally, a lack of money caused production in many other areas, including agriculture, to decline.

According to Patil (2016) ^[16], the rapid decline in credit costs brought about by demonetization increased the amount of money raised for investment purposes. People were required to deposit their old currency in banks in order to exchange it for new currency after the Rs. 500 and Rs. 1000 notes were deemed invalid. As a result, they were able to obtain a loan for business investment.

Demonetization is the act of withdrawing old currency notes and replacing them with new currency notes, according to Kumar (2016) ^[17]. Demonetization is not a recent phenomenon; many nations have already implemented it. To combat corruption, Ghana demonetized its 50 cedi bills. To combat black money, Myanmar demonetized 80% of its currency.

Objectives of the study

1. To study the sector-wise impact of demonetization.
2. To assess the demonetization's effects on the Indian economy and its many economic sectors, both positively and negatively.

Research methodology

Both main data were the foundation for the current study. with the use of a questionnaire they created themselves. This paper explains the purpose and causes of demonetization as well as how it has affected various industries. The research's chosen study region is the Rohtak District. Through the use of well-structured questionnaires, primary data is gathered. Using a random selection technique, 150 respondents in Rohtak District were chosen

as samples. A master table was created after the information was examined. The data were subsequently processed using statistical methods for analysis purposes. The basic percentage, ranking technique, and Mean are statistical tools.

Results and data interpretation

Effect of demonetization on Indian currency

Following the demonetization of Indian currency on November 8, 2016, the rupee has lost value relative to 96 other currencies or economies. The rupee has strengthened relative to 60 other currencies out of 161 and is currently trading at parity with 5 other currencies.

Data for the six months prior to demonetization, from 08 May 2016 to 08 November 2016, show that the rupee has gotten stronger than 125 different currencies. However, the rupee has become stronger than only 47 currencies after 26 days of the ban on the Rs. 500 and Rs. 1000 notes.

The rupee has lost 2.66% of its value against the US dollar, falling from 66.40 to 68.17 INR per US dollar. The Indian rupee has lost ground against various well-known currencies, including the British pound, the Canadian dollar, and the Hong Kong dollar. However, it also gained strength against the Australian Dollar, Swiss Franc, Singapore Dollar, Japanese Yen, and Euro. The Indian rupee (INR) weakened in comparison to other south Asian currencies. Bangladeshi Taka, Sri Lankan Rupee, Pakistani Rupee, and Nepalese Rupee.

S No.	Period	Stronger	Weaker	Same
1.	After 50 days of demonetization (08-11-16 to 28-12-16)	60	96	05
2.	6 month before demonetization (08-05-16 to 08-11-16)	125	32	04
3.	In Modi government (26-05-14 and 28-12-16)	94	65	02
4.	In Modi govt before demonetization (26-05-14 and 08-11-16)	93	66	02

Table 1: Distribution on the basis of demographic profile of the respondents

Factors	Number of Respondents N=150	Percentage
Gender		
Male	88	58.6
Female	62	41.4
Age (Years)		
Up to 25	24	16
26 to 50	67	44.6
Above 50	39	26
Educational Qualification		
Up to School Level	78	52
Graduate	41	27.33
House wife	31	20.6
Occupation		
Business	66	44
Employee	40	26.6
Professionals	44	29.3
Annual Income		
Up to Rs. 1,00,000	24	16
Rs. 1,00,001 to Rs. 2,50,000	62	41.3
Above Rs. 2,50,000	64	42.6

The demographic profile of the study's respondents is shown in Table No. 1. Out of the 150 respondents who agreed to participate in the survey, it has been determined that the majority of respondents (58.6%) are men, (57%) are in the 26 to 50 year age range, (44.6%) are business owners, and (42.6%) have yearly incomes of more than Rs. 2,50,000.

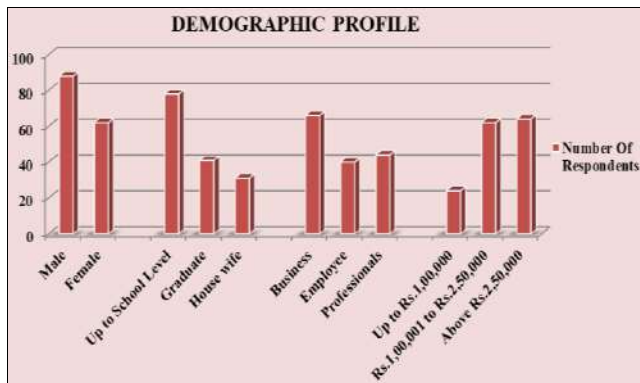


Fig 1: Distribution on the basis of demographic profile of the respondents

Table 2: Shows the factors impacting the people’s demonetization

Factors	5	4	3	2	1	Total	Mean Score	Rank
Automobiles	24	74	28	4	10	150	3.74	1
Retail	76	43	14	4	14	150	3.68	2
Agriculture	40	50	19	24	17	150	3.22	5
Real Estate	42	58	21	21	08	150	3.7	3
Construction	48	58	13	13	18	150	3.5	4
Media and Entertainment	55	35	20	12	18	150	3.4	5
Gems & Jewellery	40	30	30	16	34	150	2.97	6
Tourism and hospitality and wellness	36	45	16	34	19	150	2.89	7

The weighted average of each component pertaining to the effects of demonetization is shown in the above table. According to the estimated weighted average, respondents ranked demonetization of automobiles as the first, followed by terrorism, agriculture, and other factors.

Conclusion

For the nation to advance toward establishing a cashless economy, it is crucial that all stakeholders work together. Campaigns to increase digital literacy on a large scale (especially with regard to usage and security issues) and to enhance payment convenience are seen as key drivers of the growth of cashless transactions in India. Banks and other financial institutions must make sure that payment processing equipment is freely accessible and that there are additional points of acceptance (by adding more POS and ATMs, for example). Apps for online banking and payment should have simpler user interface designs and be available in regional languages. Regulators and the government must make digital payments required for important transactions and for high value items (such as at fuel refilling outlets). Government payments and receipts should be required to be in digital format. Finally, lowering tax rates should be done to encourage cashless transactions since otherwise, consumers will still prefer accepting cash. The government must support the industries that produce electronic and technological goods. Indians were shocked by the government's decision to demonetize the largest denomination note. Demonetization is implemented in

response to a number of issues, including tax evasion, the use of counterfeit money, and the financing of illicit activity. Some persons are depositing cash notes into bank accounts in excess of the permitted limits, which have revealed unreported income subject to increased taxes and other penalties. Alternative payment methods like e-wallets, online banking transactions, and the use of debit and credit cards have expanded, and this will lead to the development of a productive cashless infrastructure. The arithmetic mean of all the factors affecting the effects of demonetization. According to the estimated weighted average, respondents ranked demonetization destruction of automobiles as the foremost, followed by terrorism, agriculture, and other factors.

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