

## DEMONETIZATION

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### **Introduction**

Demonetization can be defined as the retirement of currency, which will be replaced with the new currency. Demonetization is basically introduced in an economy to curb the problems of Black Money, Corruption and Terrorism. It helps in bringing real estate, higher education, and healthcare in common man's reach. The process of demonetization involves either introducing new notes or coins of the same currency or completely replacing the old currency with new currency.

On 8<sup>th</sup> November, 2016 our Honorable Prime Minister Shri Narendra Modi announced demonetization of Rs.500 & Rs.1000 notes. The notes accounted 86% of the country's cash supply. And announced the issuance of new Rs.500 and Rs.2,000 bank notes of the Mahatma Gandhi New Series in exchange for the old banknotes. However, the banknote denominations of Rs.100, Rs.50, Rs.20, Rs.10 and Rs.5 of the Mahatma Gandhi Series and Rs.2 and Rs.1 remained legal tender and were unaffected by the policy.

The government's goal was to eradicate counterfeit currency, fight tax evasion, eliminate black money gotten from money laundering and terrorist financing activities, and promote a cashless economy. By making the larger denomination notes worthless, individuals and entities with huge sums of black money gotten from parallel cash systems were forced to convert the money at a bank which is by law required to acquire tax information from the entity. If the entity could not provide proof of making any tax payments on the cash, a tax penalty of 200% of the tax owed was imposed

### **Benefits of Demonetization**

Demonetization is a deep psychological strike on black money. Demonetization move has killed the very motivation of those people who have the ability to generate black money.

A person who had black money has already paid more than the effective tax rate just to convert his black money into legally tender-able currency / assets. Such people are in a state of shock as though they have already paid tax at a higher effective tax rate but still their black money has not got converted into legitimate income.

To top it up their wealth has substantially gone down as they have overnight lost more than 50% value in their real estate holdings.

Demonetization has killed the very motivation of that person to generate black money and when a person loses his motivation to generate black money it is certain that the person would not generate black money irrespective of that person's ability and resources available at his hand to generate black money.

Demonetization would produce a lot of indirect taxes. Demonetization has made the common man realize that he was the one who though paid his taxes, ended up playing a big role in generation of black money. This was because most of his spending were in cash. Common man is street smart and with this harrowing experience he would change his bad habit of withdrawing cash from ATM and then spending it on purchases. Demonetization seeks to bring in a sharp, sudden but long lasting behavior change that encourages electronic payments. That means a lot many transactions would get reported and that would lead to a direct increase in income taxes.

Demonetization has recapitalized banks in 21 days flat. The total NPA of banking sector is Rs.6 Lakh crore. Banks have got low cost deposits of Rs.11 Lakh crore and still counting.

This money would not leave the Banks as the pace of outflows would not match the inflows.

An aggressive RBI can now reduce base rate by 2-3 percentage points that would lead to a reduction in interest burden on farm loans, mudra loans, housing loans and corporate loans thereby benefiting farmers, SME, middle class and Corporate.

Demonetization would lead to generation in employment. Government can now lend massively to infrastructure sector through the recapitalized Public Sector Banks. This would generate a lot of employment opportunities thereby moving more people out of poverty.

Demonetization is advantageous in short, medium and long term.

## REVIEW OF LITERATURE

### 1. **Demonetization not to affect most weddings**

According to an article in the newspaper THE TIMES OF INDIA it was found that majority of single Indians think that demonetization is not going to affect their wedding plans, a survey has claimed.

When people were asked whether the cash crunch situation was going to affect their wedding plans, over 41 per cent men and over 39 per cent women said 'No'.

**SOURCE:** THE TIMES OF INDIA, Nov 24, 2016.

### 2. **Demonetization, RERA will bring a paradigm shift in real estate sector.**

According to CEO of Fire Capital, **Om Chaudhry**, demonetization of Rs.500 & Rs. 1000 will change dynamics of real estate sector in India, this will lead to reduction in the cash element in acquiring land, which is the biggest problem for the players like him operating in India.

**SOURCE:** TIMES PROPERTY Dec 17, 2016

### 3. **Growth will be slow due to demonetization**

According to chief operating officer and chief economist at BSE Brokers Forum V Aditya Srinivas during a discussion on the after effects, in India and world economy,

of the demonetization policy said that National GDP will fall below 6% in the aftermath of the demonetization.

Srinivas said, this will happen because a large sum of money has been removed from circulation, inhibiting purchases of fast moving consumer goods, which are usually purchased in hard cash.

**SOURCE:** THE TIMES OF INDIA Nov 18, 2016

**4. Banks running out of money**

According to an article in the newspaper 'THE HINDUSTAN TIMES' banks are running out of cash in the country long queues of people standing outside can be seen at every bank. There is a lack of cash supplies in the banks and most of the ATMs are not working. Hence people are facing trouble in getting the new currency from banks.

**SOURCE:** THE HINDUSTAN TIMES, NOV 15, 2016

**5. Demonetization: impact on the economy**

The demonetisation undertaken by the government is a large shock to the economy. The impact of the shock in the medium term is a function of how much of the currency will be replaced at the end of the replacement process and the extent to which currency in circulation is extinguished. While it has been argued 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, this argument is based on impressions rather than on facts. While the facts are not available to anybody, it would be foolhardy to argue that this is the only possibility. As argued above, it is possible that these cash balances were used as a medium of exchange.

## **OBJECTIVE**

1. To understand demonetization.
2. To find out whether citizens of the country facing problem due to demonetization.
3. To identify whether demonetization will help in fighting corruption, black money & terrorism.

## **RESEARCH METHEDODOLOGY**

Researchers have used primary data as well as secondary data for research. Primary data were collected with the help of structured questionnaire. Secondary data were taken from news papers, research papers, and several web portals. The sample size was 100 people. For analyzing the data MS Excel was used.

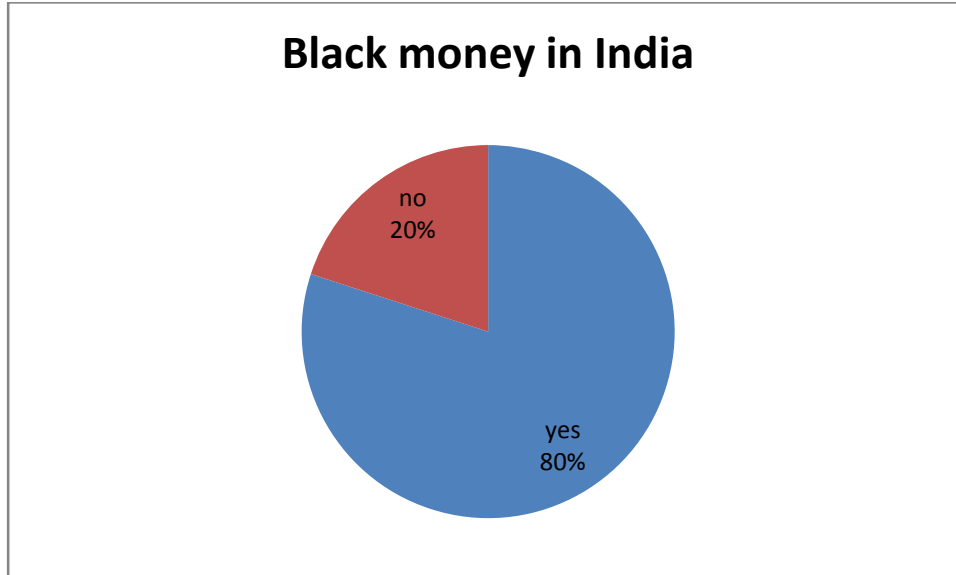
## **DATA ANALYSIS & INTERPRETATION**

A survey of 100 people is done to know the thinking of people on demonetization.

The following questions were being asked:

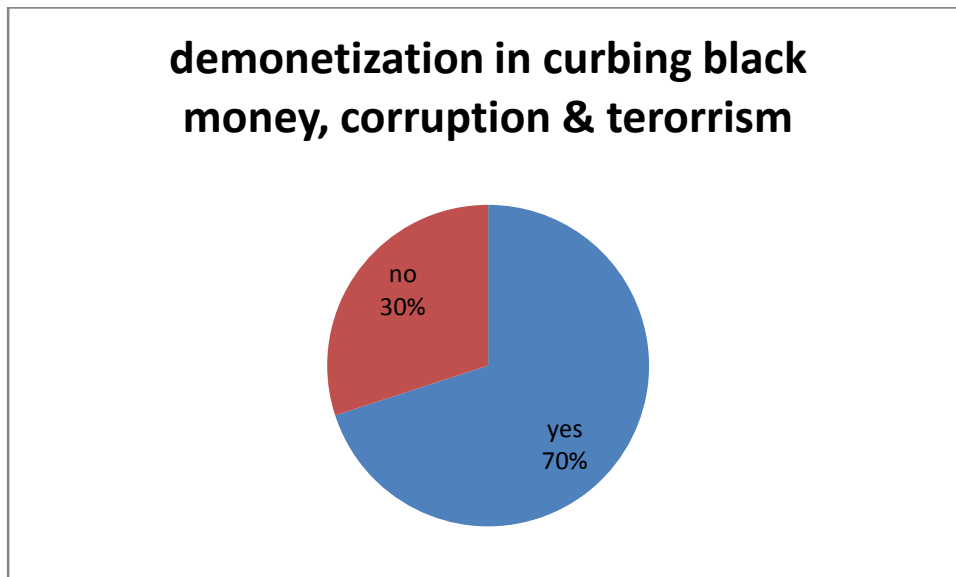
**1. Do you think black money exist in India?**

80 People out of 100 think that black money exist in India  
Rest 20 thinks that there is no black money in India.



**2. Do you think demonetization will help in curbing black money, corruption & terrorism?**

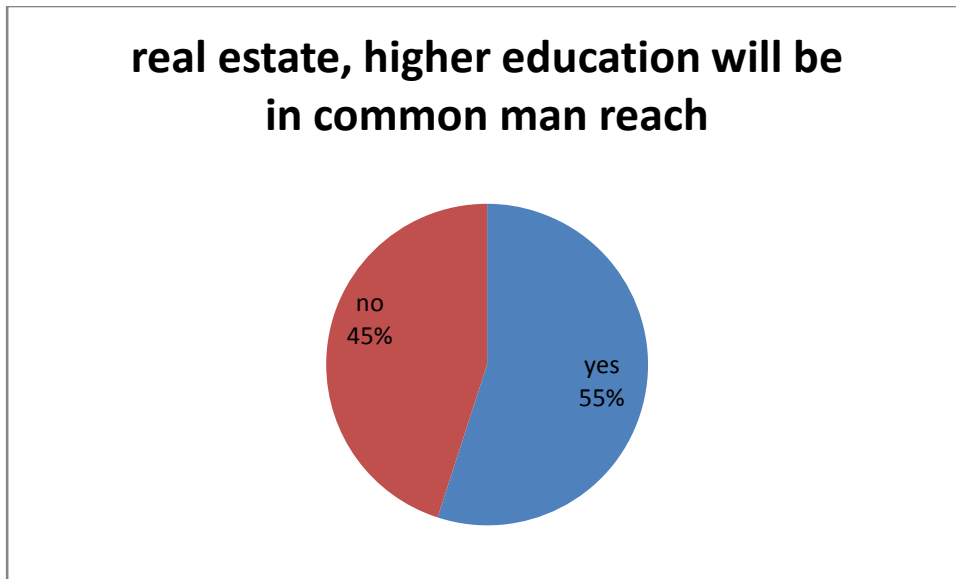
70 people out of 100 agree that demonetization will help in curbing black money, corruption & terrorism  
Rest 30 said no



**3. Demonetization will bring real estate, higher education, healthcare in common man reach?**

55 out of 100 people think that demonetization will bring real estate, healthcare, higher education in common man reach.

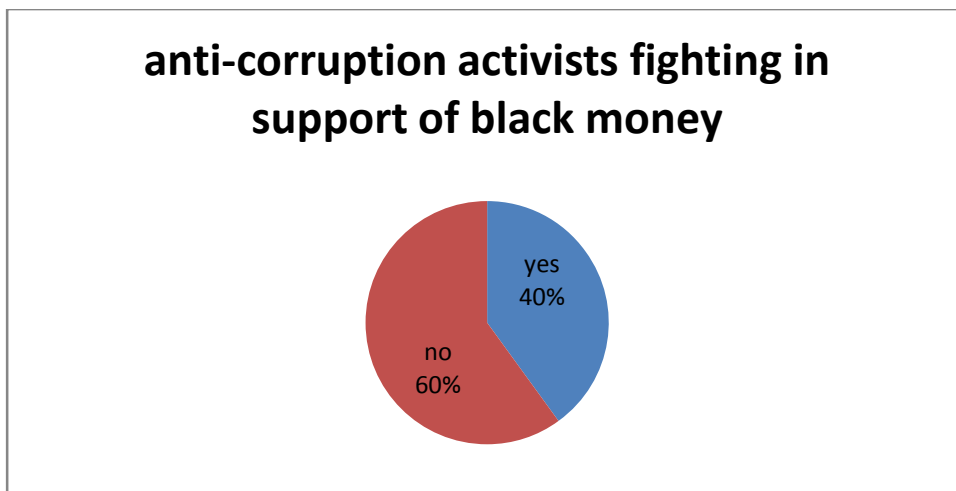
Rest 45 replied with a no



**4. Do you believe some anti-corruption activists are now actually fighting in support of black money, corruption & terrorism?**

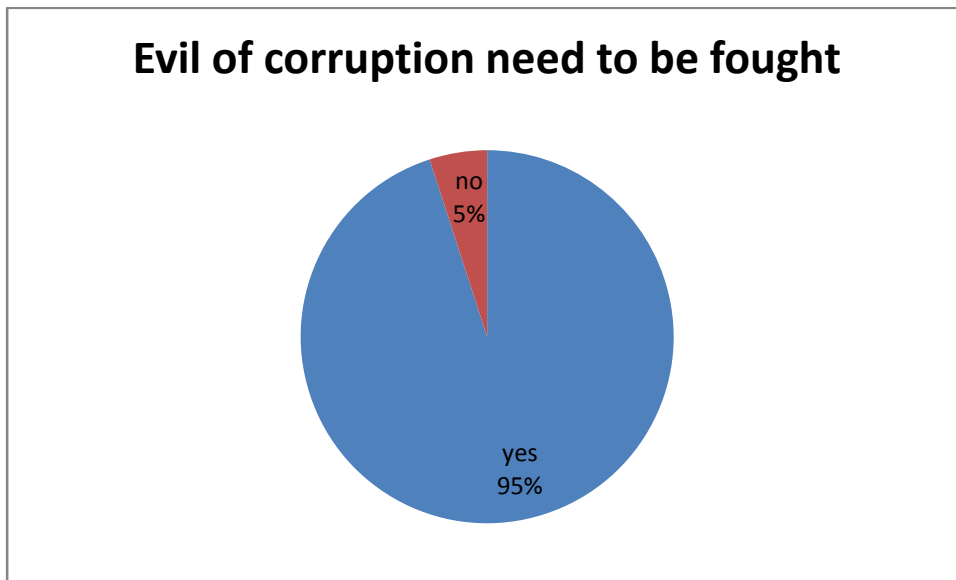
Out of 100 people 40 replied with a yes

Rest 60 said no to the question



**5. Do you think evil of corruption needs to be fought and eliminated?**

95 out of 100 people think that evil of corruption needs to be fought and eliminated



### Findings

- In our survey we have found that 70% of the people think that demonetization will help in curbing black money, corruption & terrorism.
- 95% of the people think that evil of corruption needs to be fought and eliminated.
- 40% of the people believe some anti-corruption activists are fighting in support of black money.
- 55% of the people believe that demonetization will bring real estate, higher education in common man's reach.
- 80% of the people think that black money exist in India.

### Conclusion

From this research, researchers have concluded that demonetization have long term benefits like fighting corruption, terrorism, black money. People maybe facing problems, but in the long run it's going to have lots of benefit to each class of people of the country.

### Bibliography

- **Demonetization not to affect most weddings**, THE TIMES OF INDIA, Nov 24, 2016
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- **Banks running out of money**, THE HINDUSTAN TIMES, NOV 15, 2016
- **Demonetization: impact on the economy**, [file:///E:/WP\\_2016\\_182.pdf](file:///E:/WP_2016_182.pdf), retrieved on January 2, 2017.