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## RESEARCH ARTICLE

### STUDY ON DEMONETIZATION AND ITS EFFECT

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#### ABSTRACT

In this paper we have studied multiple aspects of demonetization and its effect. We have reported and interpreted every change that happened during the phases under demonetization. We have also discussed impact and overturns done by demonetization. We have stated many thoughts of famous economists from our country to explore more in the depth of this topic. We have stated all the techniques and ways to tackle demonetization. We had considered long term and short term implications also by comparing it in this paper. Lastly we have given our thoughts about demonetization and its effect.

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## INTRODUCTION

The 'devil' in demonetization is in the first place. Demonetization is a generations' critical affair and will be one of the financial occasions of our opportunity. Its effect is felt by each Indian subject. Demonetization influences the economy through the liquidity side. Its impact will be a revealing to one on the grounds that about 86% of money esteem available for use was pulled back without supplanting its majority. Because of the withdrawal of Rs 500 and Rs 1000 notes, there happened immense hole in the money organization as after Rs 100; Rs 2000 is the main section. The nonattendance of transitional categories like Rs 500 and Rs 1000 will decrease the utility of Rs 2000. Successfully, this will make Rs 2000 less helpful as cash however it can be a store esteem division. Any Government pulls back the legitimate delicate privileges of any section of money, it is known as demonetization (Chandel, 2016). On November 8, Indian Prime Minister Mr. Narendra Modi declared in a communicate to the country that Rs. 500 and Rs. 1000 money notes would never again be perceived lawfully as cash. The aggregate cash available for use in India was Rs. 16.42 lakh crore (US\$240 billion) of Rs. 1000 and Rs. 500 notes. The legislature trusts that this demonetization is required for the four fundamental reasons first reason is for ceasing the

subsidizing of psychological warfare, a moment purpose behind confronting the issue of phony Currency, a Third explanation behind profiting useless and fourth explanation behind decreasing the defilement, and so forth. The requirement for the legislature to keep the move a mystery in light of the fact that the assessment dodgers would not know before the declaration of demonetization occurred. For Modi, this is work in advance. In his discourse to the country, he features what his administration has done as such far. Narendra Modi has provoked it will take 50 days for individuals to acclimate to the change. This declaration seems, by all accounts, to be the most vital change made by the Narendra Modi's administration to date, says Girish Vanvari, accomplice and head KPMG in India. A choice like this can bring about the general up of a framework for which many trusts that it wasn't possible, as prior endeavours did not have the rich effect. Nonetheless, the choice by Prime Minister Mr. Narendra Modi is one the most chronicled ventures in India. A choice like this can help control expansion, recapitalize banks, limiting the loan fees and making the economy dynamic, with capital inflows. India is the second most populated nation on the planet with almost a fifth of the total populace. Out of the aggregate 121 crore Indians of the Indian populace, 83.3 crores of the populace live in rustic territories while 37.7 crore remain in urban regions, said the Census of India 2011 (Dash, 2017). As a provincial populated nation, the greater part of the country populace are occupied with horticultural exercises as a large portion of the number of inhabitants in rustic regions rely upon agribusiness. Farming structures the foundation of the

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nation's economy. The rural segment like ranger service, logging, and angling represented 17% of the GDP contributes most to the general financial advancement of India. It is the biggest work source and an imperative bit of the general financial improvement of India. The conditions of Uttar Pradesh, Punjab, Haryana, Madhya Pradesh, Andhra Pradesh, Telangana, Bihar, West Bengal, Gujarat, and Maharashtra are key supporters of Indian farming (Kotnal, 2017).

### Objectives Of Paper

- To analyze the effect of demonetization on the public.
- To study the effect of demonetization on agricultural field and farmers of the rural area.
- To study the impact of demonetization on the economy of India.

### RESEARCH METHODOLOGY

Trashing in fact is a liquidity stun; a sudden stop as far as cash accessibility. It makes a circumstance where absence of monetary standards jams utilization, speculation, creation, work and so on. In this specific circumstance, the activity may deliver following here and now/long haul/, utilization/speculation, welfare/development impacts on Indian economy. The power of demonetization impacts unmistakably relies on the span of the liquidity stuns. Following are the fundamental effects.

- Demonetization isn't a major debacle like worldwide keeping money segment emergency of 2007; however in the meantime, it will go about as a liquidity stun that aggravates monetary exercises.
  - Liquidity crunch (here and now impact): liquidity stun implies individuals are not ready to get adequate volume of famous division particularly Rs 500. This cash unit is the positive division in day by day life. It constituted to almost 49% of the past money supply as far as esteem. Higher the time required to resupply Rs 500 notes, higher will be the span of the liquidity crunch. Current reports demonstrate that all security printing press can print just 2000 million units of RS 500 notes before the current year's over. About 16000 million Rs 500 notes were available for use as on end March 2016. Some bit of these was filled by the new Rs 2000 notes. Towards the finish of March around 10000 million units will be printed and supplanted. All these demonstrate that money crunch will be in our economy for the following four months.
  - Welfare misfortune for the money utilizing populace: Most dynamic portions of the populace who constitute the „base of the pyramid“ utilizes cash to meet their exchanges. The every day breadwinners, different workers, little brokers and so forth who dwell out of the formal economy utilizes money as often as possible. These areas will lose salary without fluid money. Money stringency will propel firms to diminish work cost and along these lines lessens wage to the poor regular workers. There will be a stream up impact of the liquidity disarray to the higher wage individuals with time.
  - Utilization will be hit: When liquidity lack strikes, it is utilization that will be unfavorably influenced first.
  - Utilization ↓→ Production ↓→ Employment ↓→ Growth ↓→ Tax income ↓
- Loss of Growth energy India chances its position of being the quickest developing biggest economy: diminished utilization, pay, speculation and so on may lessen India's GDP development as the liquidity affect itself may last three-four months.
  - Effect on bank stores and financing cost: Deposit in the here and now may rise, yet in the long haul, its impact will descend. The reserve funds with the banks are really fluid money individuals put away. It is hard to expect that such prepared trade once put away out their hands will be put into funds for a long haul. They spared this cash into banks just to change over the old notes into new notes. These are not willful funds expected to get intrigued. It will be changed over into dynamic liquidity by the savers when undeniable new cash supply happens. This implies new funds with banks are just temporary or here and now store. It might be encashed by the savers at the proper time. It isn't essential that demonetization will deliver huge investment funds in the saving money framework in the medium term. The greater part of the funds are gotten by biggie open area banks like the SBI. They may lessen financing cost in the short/medium term. In any case, they can't tail it in the long haul.
  - Effect on dark cash: Only a little bit of the dark cash is really put away as money. Typically, dark pay is kept as physical resources like gold, arrive, structures and so on. Consequently the measure of dark cash countered by demonetization rely on the measure of dark cash held as money and it will be littler than anticipated. However, more than whatever else, demonetization has a major promulgation impact. Individuals are currently much persuaded about the need to battle dark salary. such an across the nation mindfulness and urge will urge the legislature to turn out with even solid measures.
  - Effect on fake money: the genuine effect will be on fake/counterfeit cash as its course will be checked after this activity. Demonetization as a cleaning activity may create a few decent things in the economy. In the meantime, it makes unavoidable salary and welfare misfortunes to the poor segments of the general public who gets wage in light of their day by day work and the individuals who doesn't have the computerized exchange culture. General monetary exercises will be hosed temporarily. Be that as it may, the unmeasurable advantages of having more straightforwardness and decreased volume of dark cash exercises can be pointed as long haul benefits.

### Positive Effects of Demonetization?

In what could be named as the mother of all changes, Prime Minister Modi's demonetisation move will have expansive ramifications. This isn't to question that the transformative advance has brought some hardship for the nationals, however those are transitory and will blow over soon. For the bigger advantage of the country, we the residents can tolerate such hiccups with a grin.

All things considered, this is the means by which we as nationals can add to strategy making and country building. While bank representatives are working additional time to influence Modi's driven demonetization to drive a win, how about we talk about its many-overlay impacts (Mali, 2016).

- **Dark cash:** At one stroke the Prime Minister has gagged the supply of dark cash stacked inside the nation. Of the Rs 17 lakh crore of the aggregate cash available for use in the nation, dark cash is evaluated at mind-boggling Rs 3 lakh crore. Dark cash is only a loot of the country. Dark cash administrators run a parallel economy which shakes the very establishment of the Indian economy. With Modi's demonetization move, all household dark cash will either be saved into the saves money with the substantial punishment or be just wrecked.
- **Economy:** Demonetisation will have a gigantic resultant impact on the Indian economy. The tidy up of illicit money will help pivot the economy. To start with, it will convey more borrowings to the exchequer, enhance swelling viewpoint and increment India's (GDP). Second, it will restore speculation openings and give a fillip to foundation and the assembling part. Third, it will help lessen loan fees and lower salary assess rate.
- **Note bank legislative issues:** In the run-up to the vital get together races in Uttar Pradesh, Punjab, Goa and Uttarakhand, Prime Minister Modi's demonetization declaration have come as a sudden stunning exhibition for the political gatherings and lawmakers for whom dark cash is a life saver. The hauling out of the old Rs 500 and Rs 1,000 cash notes will help influence the decision to process spotless and straightforward. Be that as it may, it has brought extreme circumstances for the political gatherings and government officials who have faith in obtaining votes in return for notes. That is unequivocally the reason a rainbow coalition of a cosmic system of local gatherings and the Congress is developing against Modi on the grounds that their political advantages are seriously stung (RajatSinghal, ?).
- **Land purifying:** It is said that land is an industry based on dark cash. The degree of dark cash coasting around in the segment is tremendous. As indicated by a gauge, no less than 40 percent of land exchanges in Delhi-NCR are in dark. Modi's demonetization move will diminish the stream of dark cash into the land segment. This will help in making the genuinely necessary rectification in the area. The effect: A startling plunge in land and property costs.
- **Hawala exchanges:** Demonetisation has injured the hawala rackets. Hawala is a technique for exchanging cash with no real cash development. Hawala course is utilized as a way to encourage illegal tax avoidance and fear financing. Hawala rackets run again on dark cash. With dark cash abruptly being wiped out of the market, on account of demonetization, hawala operations have gone to a pounding stop. As indicated by an India Today report, one of the hawala administrators in Mumbai has decimated cash notes worth about Rs 500 crores.
- **Fake cash:** Demonetisation has managed a final knockout to the fake Indian money syndicate working both inside and outside the nation. Fake cash truly degrades the genuine worth of Indian money. An examination led by Indian Statistical Institute, Kolkata for the benefit of the National Investigation Agency (NIA) proposes that phony Indian money notes (FICN) adding up to Rs 400 crore are available for use in the nation at any given purpose of time and around Rs 70 crore counterfeit notes are drawn into Indian economy consistently. The estimation depends on recuperation and seizure made by different offices. However, the genuine figure could be considerably bigger. A One India report, citing an Intelligence Bureau dossier, says counterfeit Indian cash worth Rs 12 lakh crore has drawn into Indian monetary framework throughout the years. Obviously that the vast majority of the phony monetary standards coursed in India are between Rs 500 and Rs 1000 divisions. It is likewise germane to say that the phony money gliding inside the Indian monetary framework isn't checked inside the Rs 17 lakh crore of the aggregate cash available for use in the nation.
- This is an open mystery that Pakistan has been printing counterfeit Indian money at its administration printing press in Quetta and its security press in Karachi. The adversary country pipes the fake cash through the wilderness at Jammu and Kashmir and by means of India's permeable fringe with Bangladesh and Nepal. With Prime Minister Modi's choice to haul out the old Rs 500 and Rs 1,000 notes and supplant them with new Rs 500 and Rs 2,000 arrangement has totally slowed down the flow of fake Indian cash. Specialists say the new cash notes have accompanied propelled security highlights which are practically difficult to repeat. So Pakistan has no choice however to close shops of its phony Indian money (Uke, 2017).
- **Dread financing:** Terror financing is sourced through fake money and hawala exchanges. This is the means by which fear financing works. Counterfeit cash flow is steered through a multi-layered system of hawala administrators which are firmly connected to Satta (betting) and pirating of medications, opium, and arms. By implication, they all end up financing fear based oppression. What's more, the fear based oppressors gather colossal gifts and after that course the cash through hawala exchanges. With the course of fake Indian cash totally slowed down and hawala exchanges ceased, all windows for dread financing are shut.
- **Maoism:** Maoist sympathizers call Modi's demonetization move an "undeclared monetary crisis". There are explanations behind it. Demonetisation has hit the Maoists and their development hard. Dark cash is the oxygen for Maoists. As indicated by a gauge, Maoists figure out how to raise Rs 300 to Rs 400 crore every year through gifts, demand, and blackmails. The unlawful cash is utilized to buy arms and ammo, sustenance and drug and day by day fundamentals, aside from appropriating it among the positions and the framework. Police sources in both Chhattisgarh and Odisha have told the author that the Maoists have reserved old high division notes to the tune of over Rs 10,000 crore at their dumps in the thick wildernesses of Odisha-Chattisgarh visitor. No big surprise, with Modi's demonetization drive, all that unlawful cash are diminished to paper scrap. Maoists are in a condition of trance state and Maoist exercises see a devastating blow. As far back as the demonetization declaration was made, no real brutality was accounted for from the Maoist plagued states like Chhattisgarh, Odisha, Andhra Pradesh and Telangana (Shirley, 2013).
- **Kashmir distress:** The four-month-long turmoil in Kashmir valley is on a backburner, because of demonetization. No stone pelting on security powers has been accounted for in Kashmir as far back as the demonetization declaration was made. A knowledge

assess recommends that Pakistan sends Rs 1,000 crore yearly to the separatists for fuelling agitation in Kashmir. The cash is exchanged through hawala course. With hawala exchanges totally broke down, the separatists are presently dumbfounded. It won't be right to state that "stone pelted" Modi totally smashed the Kashmir agitation with his stone called demonetization.

- North-East insurrection: Demonetisation has seriously influenced the different aggressor bunches working in the North-East. As indicated by insight gauge, the north-eastern extremist gatherings together have a corpus of Rs 400 crore every year. The agitators source their financing in two ways. They raise supports through exact and coercions like the Maoists do. Yet, not at all like Maoists, pioneers of North-East activist outfit don't live in the wilderness. Their English talking high positioning pioneers run operations from their caves in Myanmar, Bangladesh, and Nepal. From that point they likewise exchange tremendous illicit cash through hawala course to their unit for running the militancy. With the blackmail cash ceased totally without money inflow and hawala operations going to an entire stop, all exercises of North-East activists have covered down.

### Short-Term And Longer-Term Implications

The Short-term Impacts: There will be a disturbance in the present liquidity circumstance as family units are probably going to get influenced by the note trade terms laid by the administration. In spite of the fact that liquidity is unfurling on this, item exchanges and general money advertise exchanges are probably going to feel a prompt effect. Chaotic part procedures, including little exchange advertise exercises, will stay unpredictable temporarily. Roadside sellers, taxicab drivers, kirana stores, and so forth., have effectively quit tolerating Rs 500 and Rs 1,000 notes. Note that a critical level of the Indian workforce is utilized in this division, which is probably going to be influenced by prompt liquidity issues. By and large, negative effect on extra cash is normal alongside likely disturbance in the utilization examples of the general masses. It is assessed that there will be a negative GDP affect in the present quarter as utilization gets a stun in the quick term. Notwithstanding, quantum and level of this effect can't be determined as of now.

The Longer-term Implications: This basically speaks to an adjustment in administration for the genuine and budgetary economy. Locally, there could be some turmoil as the impact will be excessively felt by the lower and upper-salary classes. Globally, the administration is probably going to get thumbs up for the move and more nations could conceivably consider this to be a suitable alternative to control dark cash and stem unlawful budgetary action. The last move by the administration may not be a to begin with, having being attempted by before governments as a device to battle debasement. Such an activity accomplishes bigger noteworthiness for an internationally associated India as it indicates strength in handling an issue which has remained a thistle in the development example of overcoming adversity of this age. The Sectoral Impacts While parts with linkages to the disorderly economy are probably going to be influenced, innovation and money related administrations are relied upon to pick up in the medium to long haul.

On a sectoral premise, the wares and agrarian area, including the market for customer durables and non-durables is relied upon to feel the warmth. In the short to medium-term, vast category buys will probably be made by means of electronic buys as opposed to through physical outlets. This will affect the retail part antagonistically. The land division is probably going to see a noteworthy negative effect in the medium-to long haul, especially in the repurchase advertise. There are desires of a revaluation of current land exchanges no matter how you look at it speaking to conceivable misfortunes to players in the part. The extravagance merchandise advertise is likewise liable to get influenced as this move speaks to a disintegration of genuine riches to a substantial Areas of sub-sectoral effect will be felt in extravagance autos, SUVs, pearls, adornments, diamonds, gems, gold and top of the line marked items. The land segment is probably going to see a noteworthy negative effect in the medium-to long haul, especially in the repurchase advertise. There are desires of a revaluation of current land exchanges no matter how you look at it speaking to conceivable misfortunes to players in the part. The extravagance products showcase is likewise liable to get influenced as this move speaks to a disintegration of genuine riches to countless. On the positive side, there is probably going to a reset of spending designs as this move speaks to in a roundabout way a noteworthy push towards a cashless economy. Organizations in the balance tech division, including installment banks, versatile wallets, electronic exchange suppliers, and so forth., are required to see picks up.

### Conclusion

In the event that the cash vanishes, as a few hoarders might not want to be seen with their money heap, the economy won't profit. Then again, if the cash discovers its way into the economy it could have an important effect. In any case, encounters from various nations demonstrate that the move was one of the arrangement that neglected to settle an obligation troubled and expansion ridden economy.

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