

Short Term Economic Effects of Recent Demonetisation on Rural and Urban Regions: A Case of Lucknow District of Uttar Pradesh

DISSERTATION

Submitted To
BABASAHEB BHIMRAO AMBEDKAR UNIVERSITY
(A CENTRAL UNIVERSITY)
LUCKNOW

BABASAHEB
BHIMRAO
AMBEDKAR
UNIVERSITY



प्रज्ञा शील करुणा
ESTABLISHED 1996

In Fulfillment for the Award of
Master of Philosophy
in
ECONOMICS

Submitted By :
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2018



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CERTIFICATE

This is to certify that the Dissertation entitled “**Short Term Economic Effects of Recent Demonetisation on Rural And Urban Regions: A Case of Lucknow District of Uttar Pradesh**” submitted in fulfillment for the award of Master of Philosophy in Economics has been carried out under my supervision and no part of the dissertation has been submitted for any degree and diploma to any other University.

The dissertation is forwarded for submission to Babasaheb Bhimrao Ambedkar University for the awarded of Master of Philosophy in Economics.

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I hereby, declare that this dissertation entitled “**Short Term Economic Effects of Recent Demonetisation Rural and Urban Regions: A Case of Lucknow District**” submitted to Babasaheb Bhimrao Ambedkar University in fulfillment for the award of Master of Philosophy in Economics in my original work. It has not been submitted in part or full for any other diploma or degree of any other university.

This study is carried out under the supervision of Prof. N.M.P Verma, Department of Economics, Babasaheb Bhimrao Ambedkar University, Lucknow.

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ACKNOWLEDGEMENT

First of all I would like to thank Almighty God because nothing can be possible without the mercy and willingness of the God.

I express my sincere gratitude to my supervisor Prof. NMP Verma for his continuous support, patience, motivation and constructive criticism. His guidance and interest helped me in pursuing the research and writing this dissertation.

I also express my deep sense of gratitude and indebtedness to my teachers Prof. Santan Nayak, Dr. L.C Malliah, Dr. Surendra Meher, Dr. D.K Yadav and Dr. Pranav Anand for their encouragement throughout my work.

I am thankful to my parents for their love, faith in my ability and their motivation to make this research come to reality. I am also express my huge thanks to my husband Mr. Shariq Ansari who stayed with me in joyful and tough times, filled me with enthusiasm whenever I thought to quit. My heartfelt gratitude to my In-laws.

I am thankful to the Non- Teaching Staff of the Deptt. of Economics Mr. Atul Sahu and Mr. Sachin for their cooperation and support during the entire period of my research work and a special thanks to Mr. Ram Sagar uncle and Mrs. Rani.. I am also thankful to the staff of Central Library, Babasaheb Bhimrao Ambedkar University Lucknow. I am also expressing my gratefulness to the respondents who provide me the valuable information without which this work would not have been possible.

A research work cannot be possible without the support and encouragement of my family and friends. I owe my thankfulness to my friend for their motivation and optimistic vision to complete this work. I am thankful to my senior for their support throughout the research work.

Nigar Afroz

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ABBREVIATIONS

AFCs	Asset Finance Companies
ASSOCHAM	The Associated Chamber of Commerce of India
ATM	Automated Teller Machine
ASI	Annual Survey of Industries
AIMO	All India Manufactures' Organisation
BHIM	Bharat Interface for Money
bps	Basis Points
BSE	Bombay Stock Exchange
CAD	Current Account Deficit
CAS	Central Accounts Section
CD	Certificate of Deposit
CIC	Currency in Circulation
CMIE	Centre for Monitoring Indian Economy
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
CSO	Central Statistics Office
CTS	Cheque Truncation System
DBIE	Database on Indian Economy
DGCI&S	Directorate General of Commercial Intelligence and Statistics
FICNs	Fake Indian Currency Notes
FPIs	Foreign Portfolio Investors
FR	Fixed Rate
FY	Financial Year
GDP	Gross Domestic Product
G-Sec	Government Security
GST	Goods and Services Tax
GVA	Gross Value Added
GVAPEW	Gross Value Added per Effective Worker
HFCs	Housing Finance Companies
ICRR	Incremental Cash Reserve Ratio
IIP	Index of Industrial Production
IMPS	Immediate Payment Service
IRDAI	Insurance Regulatory and Development Authority of India

LAF	Liquidity Adjustment Facility
LI	Labour Input
M3	Broad Money Supply
MCLR	Marginal Cost of Funds Based Lending Rate
MFs	Mutual Funds
MFIs	Micro Finance Institutions
MoU	Memorandum of Understanding
MPC	Monetary Policy Committee
MPD	Monetary Policy Department
MSF	Marginal Standing Facility
MSMEs	Micro, Small and Medium Enterprises
NBFCs	Non-Banking Financial Companies
NDTL	Net Demand and Time Liabilities
NEFT	National Electronic Funds Transfer
NETC	National Electronic Toll Collection
NPCI	National Payments Corporation of India
NSSO	National Sample Survey Office
PMJDY	Pradhan Mantri <i>Jan Dhan</i> Yojana
PoS	Point of Sale
PSU	Public Sector Undertaking
RBI	Reserve Bank of India
SBI	State Bank of India
SBNs	Specified Bank Notes
SCBs	Scheduled Commercial Banks
SIAM	Society of Indian Automobile Manufacturers
UPI	Unified Payment Interface
US	United States
USSD	Unstructured Supplementary Service Data
WACR	Weighted Average Call Money Rate
WALR	Weighted Average Lending Rate
y-o-y	Year-on-Year

Chapter-1

Demonetisation: An Introduction

1.0. Demonetisation: An Overview

Demonetisation of currency means discontinuity of the particular currency from circulation and replacing it with a new currency. **In the recent context, it is the banning of the 500 and 1000 denomination currency notes as a Legal Tender.** On 8th November 2016, the Government of India announced the **Demonetisation of all Rs. 500 (US\$7.80) and Rs. 1,000 (US\$16) banknotes of the Mahatma Gandhi Series.** The government claimed that the action would curtail the shadow economy and crack down on the use of illicit and counterfeit cash to fund illegal activity and terrorism. The sudden nature of the announcement—and the prolonged cash shortages in the weeks that followed—created significant disruption throughout the economy, threatening economic output. The government's stated objective behind the Demonetisation Policy are as follows; first, it is an attempt to reduce corruption. Secondly, it is done to curb black money, third to control inflation, fourth to stop funds flow to illegal activity, fifth to make people accountable for their income and pay income tax return. Finally, it is an attempt to make a transparent economy and create a Digital India.

1.1. Merits and Demerits of Demonetisation

Many experts and politicians, mainly opposition parties, criticized this move as ill prepared and marred with mismanagement, however, with all the claims from the government side to keep the 'surprise element' for effectively curbing the black money, there has been a background to the current decision of Demonetisation of 500 and 1000 rupee notes. The government has taken few steps in this direction much before its November 8, 2016 announcement.

- a) As a first step the government had urged people to create bank accounts under Jan Dhan Yojana. They were asked to deposit all the money in their Jan Dhan accounts and carry out their future transaction through banking methods only.
- b) The second step that the government initiated was a tax declaration of the income and had given October 30, 2016 as the deadline for this purpose. Through this method, the government was able to mop up a huge amount of undeclared income. However, there

were many who still hoarded the black money, and in order to tackle them; the government announced the Demonetisation of 500 and 1000 currency notes. The Demonetisation policy is being seen as a financial reform in the country but this decision is fraught with its own merits and demerits.

Key Merits of Demonetisation

- i. Prime Minister of India described the objective of Demonetisation during his declaration on television on 8th November, 2016. He also mentioned possible benefits of this step that, according to him, would also bring temporary hardships for the people. Key merits of the step are enumerated below:
- ii. The Demonetisation policy will help India to become corruption-free. Those indulging in taking bribe will refrain from corrupt practices as it will be hard for them to keep their unaccounted cash.
- iii. This move will help the government to track the black money. Those individuals who have unaccounted cash are now required to show income and submit PAN for any valid financial transactions. The government can have access to unaccounted money for the purpose of imposing income tax.
- iv. The move will check the funding of unlawful activities that are thriving due to unaccounted cash flow. Banning high-value currency will rein in criminal activities like terrorism, etc.
- v. The ban on high value currency will also curb the menace of money laundering. Now such activity can easily be tracked and income tax department can catch such people who are in the business of money laundering.
- vi. This move will stop the circulation of fake currency. Most of the fake currency put in circulation is of the high value notes and the banning of 500 and 1000 notes will eliminate the circulation of fake currency.
- vii. This move has generated interest among those people who had opened Jan Dhan accounts under the Prime Minister's Jan Dhan Yojana. They can now deposit their cash, with certain conditions and limitations, under this scheme and this money can be used for the developmental activities of the country.
- viii. The Demonetisation policy will force people to file income tax returns. Most of the people who have been hiding their income are now forced to come forward to declare their income and pay tax on the same.

- ix. Even though deposits up to Rs 2.5 lakh will not come under Income tax scrutiny, individuals are required to submit PAN for any deposit of above Rs 50,000 in cash. This will help the income tax department to track individuals with high denominations currency.
- x. However, the ultimate objective behind this bold move is to transform India into a cashless economy. All the monetary transaction has to be through the banking methods and individuals have to be accountable for each penny they possess. It is a giant step towards the dream of digital India.

Demerits of Demonetisation

Many critiques, primarily the experts and politicians who belong to opposition parties have mentioned the short term demerits of the Demonetisation. Their key points are following:

- i. The announcement of the demonization of the currency caused huge inconvenience to the people and it was observed that many of them were rushing to banks for exchange and deposit of withdrawn notes and also to get necessary cash to meet their urgencies. The sudden announcement had created a chaotic situation which was appropriately captured by national media. People were also caught in anxiety as there was a delay in the circulation of new currency and calibration of ATMs for the same.
- ii. According to many experts, this step has deeply affected the business, especially the in informal sector. Due to the cash crunch, the entire economy has been made to come to a standstill, at least for some time.
- iii. It was also reported that many poor daily wage workers are left with no jobs and their daily income has stopped because employers are unable to pay their daily wages.
- iv. It was also reported in media, that the government was finding it hard to implement this policy. Apart from bearing the cost of printing of new currency notes, government also experienced difficulties in appropriately circulate the new currency, in time. Furthermore, the Rs.2000 note remained useless for sometimes as people lacked the currencies of small denominations for the transaction against it. Many experts are of the opinion that Rs. 2000 note will only help people to use and horde black money more easily in future.
- v. Further, many people have clandestinely discarded the demonetized currency notes and this is a loss to the country's economy

However, if we compare the merits versus demerits, it will be safe to conclude that the former outweighs the latter. Even though there were suffering and agony among the masses right during the moment, and it was also acknowledged by the Prime Minister during the declaration, majority of experts and people are of the opinion that its benefits will be seen in the long run. Proposed study will analyze the short term economic impacts of recent Demonetisation in various perspectives.

In the next section of this chapter we will discuss the concept of Demonetisation and various point of views of different economist like Amartya Sen, Kausik Basu etc. In the second section, some examples related to Demonetisation at global stage would be discussed along with the past incidences of Demonetisation in India, prior to the declaration of 8th November, 2016. In the third section we would discuss the most important factors behind the decision of recent Demonetisation, i.e., A step to solve the problem of counterfeit currencies, black economy and tax evasion and to promote the less cash economy for better economic results. This section would also highlight some recent impacts of Demonetisation. In the fourth section, a critical review on the status of Demonetisation effects and the perspectives which reveals the basic knowledge regarding Indian government's step to demonetized high denomination currency notes, would be carried out, along with some theoretical analyses on the Demonetisation. This would be followed by the next section which highlights the research objectives, research methodology and further chapters plan.

1.2. Concept of Demonetisation and views of various Economists

The section 26, sub section (2) of the Reserve Bank of India Act 1934, empowers the Union government on the recommendation of Central Board to declare that “any notes issue by the RBI will no longer be as legal tender.” There can be various forms of Demonetisation; however, in recent context of India, it took a form of barring old Rs. 500 and Rs. 1000 banknotes to remain as legal tender. In this context, Demonetisation is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency. Demonetisation is a radical monetary step in which a currency unit's status as a legal tender is declared invalid. The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. Sometimes, a country completely replaces the old currency with a new currency. The opposite of Demonetisation is Remonetization, in which a form of payment is restored as legal tender. There can be multiple reasons why nations demonetize their local units of currency:

- a) To combat inflation
- b) To combat corruption and crime (counterfeiting, tax evasion)
- c) To discourage a cash - dependent economy
- d) To facilitate trade

The French were the first to use the word ‘Demonetize’, in the years between 1850 -1855. Since then many countries have used the word and the policy with immense restriction and discomfort, for it disrupts economics and population at large. However, many experts have quoted the positive side of Demonetisation. There are many experts who hold negative opinion about this step. Nobel laureate and eminent economist Amartya Sen said, “The Demonetisation of currency is a despotic act as the government broke the promise of compensation that comes with a promissory note.” Similarly, economist and chief economist of the world Bank Kaushik Basu expressed, “Demonetisation was ostensibly implemented to combat corruption, terrorism financing and inflation.” However, there are many experts who supported this move and important among them is the economist and former Indian representative to the IMF Arvind Virmani reportedly said that “Demonetisation is a useful method of flushing out black money.” Kenneth Rogoff, author and professor of economics at Howard University, expressed, “Demonetisation is the bold and audacious move for a country with endemic corruption.” Similarly, according to Kabra, (1982 p.111) “The Demonetisation of high Demonetisation currency as a means for unearthing as well as cancelling out a good part of black income.” Arun Kumar (Retired professor of economics, JNU, New Delhi and author of Black Economy in India) said, “Demonetisation is a remedy for curbing black economy, but questions are asked about its effectiveness and its economic cost.” Nobel laureate and eminent economist Richard H Thaler said “This is the policy I have long supported. First step toward cashless and good start of reducing corruption.”

1.3. Examples of Demonetisation at Global Level

There are numerous examples when many countries demonetized their popular currencies due to various reasons. Few examples are enumerated below:

- a) **The Coinage Act 1873** demonetized silver as the legal tender of United States, in favor of fully adopting the gold standard.
- b) **The United Kingdom**, adopting decimal Currency in place of pounds, shillings, and pence in 1971, Banknotes remained unchanged (except for the replacement of the 10

shilling note by the 50 pence coin). In 1968 and 1969 decimal coins which had precise equivalent values in the old currency (5p, 10p, 50p - 1, 2, and 10 shillings respectively) were introduced, while Decimal Coins with no precise equivalent ($\frac{1}{2}$ p, 1p, 2p equal to 1.2d (old pence), 2.4d, 4.8d respectively) were introduced on 15 February 1971. The smallest and largest non-decimal circulating coins, the half penny and half crown, were withdrawn in 1969, and the other non-decimal coins with no precise equivalent in the new currency (1d, 3d) were withdrawn later in 1971. Non-decimal coins with precise decimal equivalents (6d (= 2½p), 1 and 2 shillings) remained legal tender either until the coins no longer circulated (1980 in the case of the 6d), or the equivalent decimal coins were reduced in size in the early 1990s. The 6d coin was permitted to remain in large circulation throughout the United Kingdom due to the London Underground committee's large investment in coin-operated ticketing machines that used it. Old coins returned to the Royal Mint through the UK banking system will be redeemed by exchanging them for legal tender currency with no time limits; but coins issued before 1947 have a higher value for their silver content than for their monetary value.

- c) **Nigeria:** during the government of Muhammadu Buhari in 1984, Nigeria introduced new currency and banned the old notes.
- d) **Ghana:** in 1982, Ghana ditched their 50cedis note to tackle tax evasion and empty excess liquidity. This made the people of the country support the black market and they started investing in physical assets which obviously made the economy weak.
- e) **Myanmar:** In 1987, Myanmar's military invalidated around 80% value of money to curb Black Market. The decision led to economic disruption which in led to mass protests that killed many peoples.
- f) The successor states of the Soviet Union replacing the Soviet ruble in the 1990s
- g) Demonetisation for trade purposes occurred when the nations of the European Union officially began to use the euro as their everyday currencies in 2002. When the physical euro bills and coins were introduced, the old national currencies, such as the German mark, the French franc and Italian lira were demonetized.
- h) **North Korea:** The Demonetisation that happened in North Korea in 2010 left people with no food and shelter. Kim-Jong II introduced a reform that knocked off two zeros from the face value of the old currency in order to banish black market.
- i) **Pakistan:** from December 2016, Pakistan will phase out the old notes as it will bring in new designs.

- j) **Zimbabwe:** Zimbabwe used to have \$100, 000,000,000,000 notes. One hundred trillion dollar note! After Demonetisation the value of trillion dollars dropped to \$0.5 dollar and was also put up on eBay.
- k) **Australia:** Australia became the first country to release polymer (plastic) notes to stop widespread counterfeiting. Since the purpose was to replace paper with plastic and only the material changed. It did not have any side-effects on the economy.

1.4. History of Demonetisation in India

8th November, 2016, when Prime Minister announced that Rs.500 and Rs.1000 banknotes would be seized to be the legal tender, this was not the first time when Demonetisation of currency took place in India. There were following occasions in past when Demonetisation took place in India:

- On 12th June, 1946, the currency note of Rs 1,000 and Rs 10,000 were removed from circulation. The ban really did not have much impact, as the currency of such higher denomination was not accessible to the common people. Interestingly, out of a total issue of Rs. 143.97 crores of the high denomination notes, notes of the value of Rs. 134.9 crores were exchanged. Thus, notes worth only Rs. 9.07 crores were probably 'demonetized.' However, both the notes were reintroduced in 1954 with an additional introduction of Rs 5,000 currency.
- On 16th June, in 1978; the then Prime Minister of India Morarji Desai announced the currency ban taking Rs 1000, Rs 5000 and Rs 10,000 out of circulation. The sole aim of the ban was to curb black money generation in the country. Then finance minister Mr. H.M. Patel in his budget speech remarked, "The Demonetisation of high denomination bank notes was a step primarily aimed at controlling illegal transactions. It is a part of a series of measures which Government has taken and is determined to take against anti-social elements." However, he never mentioned about the outcome of this measure which clearly indicated that this step, too, did not create much impact.
- There are similarities in note ban taken by Morarji government in 1978 and that of Modi government in 2016 as both were confidential aiming to drive black money out of circulation and most on both occasions the announcements were made on mainstream media of the time, i.e., Narendra Modi Television and Morarji on radio.

- However, where Prime Minister of India enjoyed the support of RBI governor, Morarji could not do so because then Governor Mr. I.G. Patel believed that people could not store black money in the form of currency for longer duration.

1.5. Demonetisation as one of the Options

In an extraordinary move to fight against the challenges associated with the black money, corruption, money laundering, financing of terrorists and counterfeit currency, the government of India decided to withdraw the legal tender character of Rs.500 and Rs.1000 banknotes of Mahatma Gandhi Series from 9th November, 2016. The announcement was made by no less a person than the Prime Minister of India himself in an unscheduled live televised address to the nation on the evening of November 8, 2016, creating a huge gambit of surprise. Most importantly, the demonetized bank notes accounted for 86% of country's cash supply. Government also announced the issue of new Rs.500 and Rs.2000 banknotes of Mahatma Gandhi New Series in exchange for the old banknotes. Banknotes of Rs.100, Rs.50, Rs.20, Rs.10, Rs.5, Rs.2, Rs.1, remained as legal tenders and thus unaffected by the decision of the government. The government's move was aimed at:

- Eradicating Counterfeit Currency
- Fighting Tax Evasion
- Eliminating Black Money
- Curbing Terrorist Financing
- And Promoting A Cashless Economy

1.5.1. Eradicating Counterfeit Currency

According to media reports, the incidences of fake Indian currency notes, in higher denomination, had increased, before Demonetisation. The fake notes were used for anti-national and illegal activities. High denomination notes had been used by terrorists and for hoarding black money. In the cash-based economy of India, circulation of fake Indian currency notes was a menace .Fake Indian Currency Notes (FICN) in circulation in these denominations is comparatively larger as compared to those in other denominations. For a common person, the fake notes look similar to genuine notes. Use of FICN facilitates financing of terrorism and drug trafficking. Use of high denomination notes for storage of unaccounted wealth has been evident from time to time cash recoveries made by law enforcement agencies. High denomination notes are known to facilitate generation of black

money. In this connection, it may be noted that while the total number of bank notes in circulation rose by 40% between 2011 and 2016, the increase in number of notes of Rs.500/- denomination was 76% and for Rs.1000/- denomination was 109% during this period. New Series bank notes of Rs.500/- and Rs.2000/- denominations will be introduced for circulation from 10th November, 2016. Infusion of Rs.2000/- bank notes will be monitored and regulated by RBI. Introduction of new series of banknotes which will be distinctly different from the current ones in terms of look, design, size and colour has been planned.

1.5.2. Fighting Tax Evasion:

Black money and Tax Evasion have been eating into the social and moral fabric of the Indian Society. They are undermining the socio-economic objectives of national policies. They are responsible for conspicuous and wasteful consumption, reduced saving, and increasing gap between the rich and the poor. Black money in social, economic political space of the country has a debilitating effect on institutions of governance and conduct of public policy in the country. Governance failure adversely affects the interest of vulnerable and disadvantaged sections of the society. The success of an inclusive growth strategy critically hinges on the capacity of society to root out the evil of corruption and black money from its very foundations. In the last two years, the Government has taken a number of steps to curb the menace of black money in the economy including setting up of a Special Investigation Team (SIT); enacting a law regarding undisclosed foreign income and assets; amending the Double Taxation Avoidance Agreement between India and Mauritius and India and Cyprus; reaching an understanding with Switzerland for getting information on Bank accounts held by Indians with HSBC; encouraging the use of non-cash and digital payments; amending the Benami Transactions Act; and implementing the Income Declaration Scheme 2016.

1.5.3. Eliminating Black Money and Corruption

In recent years, the issue of Corruption and Black Money has come to the forefront after a series of financial scandals. Corruption in India is a major issue that adversely affects its economy. In 2014 India ranked 85th out of 175 countries in Transparency International's Corruption Perceptions Index, compared to its neighbors Bhutan (30th), Bangladesh (145th), Myanmar (156th), China (100th), Nepal (126th), Pakistan (126th) and Sri Lanka (85th). Global perception regarding India's corruption levels remain high, going Transparency International's Corruption Index Rating for 2016 India has ranked 76th in the Global corruption ranking. An article in the reputed newspaper "The Hindu" in 2010 revealed that unofficial estimates indicate that Indians had over US\$1456 billion in black money stored in

Swiss banks (approximately USD 1.4 trillion). While some news reports claimed that data provided by the Swiss Banking Association Report (2006) showed India has more black money than the rest of the world combined, a more recent report quoted the SBA's Head of International Communications as saying that no such official Swiss Banking Association statistics exist. According to Report published by SWISS NATIONAL BANK estimates total deposits as below: From this analysis it is clear that India has a Top Position in case of black money deposits. Table 1 shows the contrary wise deposits of black money in Swiss banks.

Table 1.1: contrary wise black money deposits in Swiss banks

country	Money Deposits
INDIA	\$1,456 billion
RUSSIA	\$470 billion
UK	\$390 billion
UKRAINE	\$100 billion
CHINA	\$96 billion
Source: Swiss Banking Association Reports.	

1.5.4. Combating Terror Funding

India has been a victim of terrorist attacks time and again. Demonetisation scheme is expected to choke funding for arms smuggling, espionage, and terrorism through Hawala transactions. Media reports after the Demonetisation suggested that Demonetisation impacted both terrorists as well as nexalites.

1.5.5. Promoting A Cashless Economy

The benefits of a cashless economy includes: (a) reduced cash and hence more safety, (b) faster payments, (c) reduced number of visits to banks, (d) interest earning on money in the bank, (e) quick settlement of transaction, and (f) improved accounting and book keeping. This would also enhance the size of economy as various kinds of new services would be essentially used in cashless society, especially on digital platforms. Government has also developed a 'BHIM' App form the cashless transaction which is very simple to use.

1.6. Some Highlights of Recent Impacts of Demonetisation of High Denomination Notes

Majority of the people including the critiques agree on the fact that the decision made by honorable Prime Minister of India on Nov 8, 2016, to remove the legal tender high denomination notes (HDNs) accounting for about 86% of the currency stock in value term was bold and unprecedented moves. Most of the economist argued that there would be a precipitous drop in GDP growth, the reasoning evidently being that the temporary liquidity crunch caused by Demonetisation followed by slow “Remonetization” would severely affects cash dependent sectors of the economy, leading presumably to a drop in aggregate demand and hence in GDP growth. However, the GDP growth in the third quarter, Oct-Dec 2016 the period during which Demonetisation occurred, has shown only a modest dip of roughly one half of a percentage point. This is the hardly the economic disaster. Additionally the take up of digital payment the emergence of informal credit arrangements between seller and consumers, and the fast pace of remonetization all together assured that the economy did not contract as much as it was widely feared. Following are some of the developments observed aftermath of Demonetisation:

- Data presented to Parliament on 1st Feb during the Union Budget speech by finance minister (GOI) suggested that very many large deposits were made in the aftermath of 8th Nov, in particular, deposits of 1.48 lakh accounts with an average deposits of Rs. 3.31 crore (thus accounting for around 5 trillion rupees or about a third of currency in circulation).
- Smaller but significant and potentially taxable, deposits in the Rs. 2 lakh-80 lakh range accounted for another 5 trillion rupees. Taken together these deposits accounted for about two third of currencies in circulation.
- The earlier unaccounted money has also been reduced because of Demonetisation and hence hiding the facts of earning. Thus the stock of wealth has reduced substantially. As a result luxury goods and comfortable goods have been slacking. This has cyclical effects on production and demand in others sectors as well. (in SMEs only production has declining by 44% in October- December quarter.
- It's highest in NCR which is 53% further, there is decline in housing demand in eight bigger cities of India).

- SBI research survey during Dec 31 to Jan 7 has observed that during Demonetisation in the Oct-Dec quarter there is large reduction in self employment in service sectors such as of small vendors in the informal sector.
- Rs. 80000cr has been spent on debt payment according to AIMO survey Rs. 3to4 lakh cr. has been deposited in other banks.
- Those accounts are non operationalised since long has been operationalised suddenly and Rs 25,5000cr has been deposits in such accounts.
- Tax evasion decline can be linked to growth in tax mobilization. For example April-Dec 2016
 - I. direct tax increased by 12%
 - II. Indirect tax increased by 25%
 - III. Excise duty increased by 43%
 - IV. Service Tax increased by 10%
 - V. Corporate tax increased by 4%
- Debit cards have conclusively displaced credit cards as the primary mode payment in the country following Demonetisation. Until October last year, despite outnumbering credit card by a factor of more than 25%, debit cards accounted for only 42% of the total cards spend. This has jumped to 60% after Demonetisation.
- Last October public sector banks saw transactions worth Rs. 10,893 crore from 61.7 crore debit cards they had issued till then.
- After Demonetisation of Indian currency on 08th Nov 2016, rupee has become stronger than currency of 143 countries or economies. Out of 161 countries' currency, rupee has become weaker than 17 currencies and is at same exchange rate with 1 currency.
- Rupee has become stronger by 0.95% against US Dollar (\$) from 66.40 to 65.78 INR per unit US Dollar. Rupee has become stronger against some popular currencies like Euro, Australian Dollar Swiss Franc, Singapore Dollar, Japanese Yen, British Pound, Canadian Dollar and Hong Kong Dollar. However it became weaker than Russian Ruble and South African Rand. (source:StatisticsTimes.com)

1.7. Review of Literature

Demonetisation of 86% of India's currency has sparked wide and substantial debate among scholars, experts and researchers. This review wishes to bring their perspectives in this research and with this objective it would be useful to highlight the major portions of the

concerns and opinions expressed by them. However, on the other hand many reports and experts supported this bold step and termed it as a historic decision. It would be better to examine the both sides of the argument. This review would first examine the arguments of those who opposed this step. Later, the government's perspectives and those who supported this step would also be included in this review.

Sinha and Rai (2016) reviewed on the effect of Demonetisation on Rural Population. They discussed as a declaration of 86 percent of currency notes as illegal tender in just a blink of time on eve of 8th November 2016 mandated the creation of immediate interruption in daily lives. The chaos was created in every stratum of the society whether upper, middle or lower. Where some welcomed the move as it was seen for curbing black money, many are suffering by this movement. But the supreme sufferers of this move were the informal sector of Indian economy, where cashless transactions are minimal. Informal sectors of Indian Economy includes 106 activities like agriculture, workers in construction, local transport, community services and small workshops like shoe makers and garment makers (International Conference of Labour Statistics, 2003), rural populations and the urban poor and middle class. This paper aimed at reviewing the general implications of Demonetisation on rural people.

Rao et al. (2016) revealed a National Institute of Public Finance and Policy working paper on "Demonetisation: Impact on the Economy". Their finding that the argument posited in favour of demonetisation is 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. While the facts are not available to anybody, it would be foolhardy to argue that this is the only possibility. Therefore, it is imperative to evaluate the short run and medium-term impacts that such a shock is expected to have on the economy. Further, the impact of such a move would vary depending on the extent to which the government decides to remonetise. This paper elucidates the impact of such a move on the availability of credit, spending, the level of activity and government finances.

Das Gupta (2016) explained the theoretical analysis of Demonetisation in his notes. He pointed out the theoretical concept using Money Market Equilibrium, Goods Market Equilibrium, IS-LM Equilibrium, Goods Market Equilibrium, and Open Economy Considerations. Will the demonetisation exercise produce any permanent benefit? From the analysis carried, the short- to medium-run scenario does not appear to be too rosy. None of the

economic variables of importance are likely to move in a healthy direction. Even if the profession, in general, does not subscribe to the theoretical foundations of that school any longer, one of its policy conclusions probably cannot be ignored, especially in the context of the Indian government's claim that in order to ensure the success of its demonetisation drive, it had decided to catch the public unawares. In other words, the government believes that its action has been successful because it took the form of a random shock to the system. It is in this context that we should take note of a well-known observation made by Robert Lucas (1997) in his Nobel lecture: "Unanticipated monetary ...contractions can induce depression." India's random Demonetisation exercise, therefore, may well turn out to be a test case for Lucas' prediction.

Mahajan and Singla (2017) worked on effect of Demonetisation on financial inclusion in India. In their context that financial inclusion has come up as a key measure for achieving inclusive growth. The government of India has taken up several measures for financial inclusion. Although the degree of financial inclusion has improved still India has a long way to go to become digitally financially included. Indian government adopted Demonetisation in November 2016 to tackle with black money and make India a cashless digital economy. With the implementation of Demonetisation and considering the country's agenda to improve financial inclusion, this paper makes an attempt to study the effect of Demonetisation on financial inclusion. The effect of Demonetisation has been studied on various participants of financial inclusion drive such as ordinary individuals, informal sector, rural population, MSMEs, NBFC MFIs and E-wallet companies. The findings of the study reveal that ordinary individuals were the most adversely affected. The new type of deposits called benami deposits have also come up with Demonetisation. With the aim of achieving financial inclusion along with making India a cashless and digital economy, efforts are required to make technology reach the bottom of the pyramid.

Waknis (2017) revealed a paper on Demonetisation explaining the theoretical perspectives and he also considered various concepts of experts. He explained about Money and the possible set of allocations, Currency Deposit Ratio and Money Multiplier and Segmented Markets and Demonetisation.

SukantaSarkar (2010) conducted a study on the parallel economy in India: Causes, impacts & government initiatives in which he focused on the existence of causes and impacts of black money in India. According to him, 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 .So, he concluded that laws should be implemented properly to control black money in our economy.

CA Lalit Mohan Aggarwal (2012) edited the White Paper on Black Money studied that violation of laws by central and state govt. leads to criminal activities which in turn leads to generation of black money in Indian economy.

Vijay Kumar Singh presented a paper on controlling money laundering in India- problems & perspectives that to control black money in India is very difficult task only due to the existence of one reason i.e. poor implementations of laws which leads to sophisticated crime in the economy and thus generates black money.

Arun Kumar (2017) ,The Black Economy in India in this book Arun Kumar has discussed that in 1990-91, according to various estimates the black economy constituted about 35 percent of national economy, which was larger than either its primary or secondary sectors. Since then black income generation has increased not only through both legal (real estate transactions, the share market) and illegal (hawala, financial scams, gold smuggling) activities but also via instances of corruption. The new economic policies expected to counter its growth has been unsuccessful in containing it. In this empirically rich and finely argued book, Arun Kumar critically examines the standard explanation for the cause and consequences of black income generation and the methods suggested for curbing it. His incisive analysis lays here the pernicious effects of black income on the macro-economic and the resultant inefficiency, waste and sub optimality in the economy and society. It also spotlights the role of criminalization and the emerging nexus of the businessman, politicians, and bureaucrat in perpetuating the black economy showing the limited success of technical remedies VDIS, Arun Kumar argues in favor of structural remedial measures, which include empowering people through a right to information act.

Economic Survey (2016-2017), The economic survey of 2016-2017 in the second chapter contained the first government assessment of the impact of Demonetisation 2016. The survey contained a separate chapter on the subject with a catchy title “Demonetisation: To Deify or Demonise?” it identified three issues in the public debate, but addressed only one- the short and medium-term economic impact. And even within that, it steered clear of dealing with

broader welfare dimensions. The short term economic impact was estimated to be 0.25 to 0.50 percent loss in GDP in 2016-2017.

The survey identified three long term marker of success of Demonetisation 2016, none of which was part of the original objectives of reducing corruption and black money, and neutralizing counterfeit currency. The first marker of success will be an increase in digital payment methods among individuals, the second in reduction in cash GDP ratio. The third and most important marker of success will be an increase in the number of income tax payers and the amount of tax collected.

As pointed out earlier, digitalization of payments emerged as an important part of the government's agenda midway through Demonetisation 2016, and has since come to be seen as the most important medium-term objectives. The goal highlighted this a few weeks after Demonetisation was announced, the economic survey saw definite gains from digitalization, and the finance minister made it a focus area of the union budget for 2017-18.

On the whole, the survey remained ambivalent about whether major gains would be realized from Demonization 2016. The gained seemed contingent on a number of complementary steps being taken. The document also skirted the issue of whether Demonetisation should have been carried out or not. It made the unexceptional argument the long term benefit must be maximized while the short term cost should be minimized.

Pawam Kumar, in his article concluded on the basis of analyzing secondary data that employment scenario in the country is not conducive enough to face any challenge such as the 'Demonetisation' of currency. He questioned the Demonetisation and remarked, "In a country, when 79 percent of non-agricultural wage workers have no written contract and only one fourth are eligible for any social security, the decision is certainly a cause of concern. " He further noted that India has the world largest youth population, so for any developing country like India, it is the time to harness the population dividend by providing them gainful employment. While the impact of ICT on the growth and direct employment is well documented, however, its indirect negative employment impact on ICT using manufacturing sectors cannot be ignored. He raises sever questions on the decision of 'Demonetisation' as according to him it will further destabilize the already volatile labour market in India.

Anushka Kapadia, in her article, highlighted that Indian monetary system is based on state-backed credit money as in the rest of contemporary capitalism. This system, according to her,

is hierarchical system of credit/social relations which appears to us as a system of fiat money and though this fetish of fiat money is analogous to Marx's commonality fetish, however, it is produced in the operation of credit system. She pointed out that institutional and political arrangements of the Indian state amplify this inherent fetish and the conjuncture of various elements produces a robust fetish of the fiat money in the India. This arrangement, according to her, gives more degree of freedom over money than other states enjoy and it gives a margin to the current government which is exploiting the same.

Dipankar Dasgupta, in one of his article, analyses the implications of the recent "Demonetisation" with the aid of simple theoretical tools and his conclusion reached to support the Robert Lucas's Nobel lecture in which he questioned the merits of economic policies that assume the form of random shocks to an economic system. He started with the questions, "will the Demonetisation exercise produce any permanent benefit?" He started analysis and evaluated the short to medium term scenario. His analysis reveals that none of the economic variables of the importance are likely to move in a healthy direction. He further added, "If corruption itself cannot be addressed, we may very well end up with a scenario where new black money will drive out old black money from the system." He appealed the readers' attention to a piece of advice from the rational expectation school of thought in macroeconomic. According to him, one of the policy conclusions of the school probably cannot be ignored, even if one does not subscribe to the theoretical foundations of the same. This policy conclusion, according to the author, is quite relevant to the Indian government's claim that in order to ensure the success of its step, it had decided to catch the public unawares. In other words, the government believes that its action has been successful because it took the form of a random shock to the system. It is in this context that author noted the well-known observation made by Robert Lucas (1997) in his Nobel lecture: "Unanticipated monetary contractions can induce depression. Finally he concluded that"India's random Demonetisation exercise therefore may well turn out to be a test case for Lucas' prediction."

Prof. Arun Kumar, the noted authority on black money, in an interview with Economic and Political Weekly (EPW) summed up the impact of Demonetisation in following words, "It has already been pointed out that demonetisation by creating a shortage of currency has impacted the money supply through the money multiplier. It has also affected the velocity of circulation so that the transactions in the economy have been forced to contract leading to an

impact on production and income generation.” When it was asked ‘is this reversible with the restoration of liquidity over time?’ he responded, “Indeed, in the short run, this is feasible but not if it persists for more than a month or so.” He further explained, Profitability of enterprises has been dented due to a decline in production and the build-up of inventories. As capacity utilization was already a problem, it will fall further and this would *lead to a cutback in investment and employment. This would result in long-term consequences and the situation could become irreversible.*

Dr. Ambalika Sinha and Divya Ray in a paper reviewed the general implications of the Demonetisation, especially its impact on informal sector. They observed that without adequate and proper planning; the Demonetisation-driven cash crunch rendered Indian economy paralyzed for short duration as the informal sector which comprises of 40 percent share in GDP became unviable. They noted that many people did not have bank accounts where they could be paid in cash faced severe problem and hours of working time was wasted in standing in queues for exchange. For physically frail and senior citizens it was a grave problem indeed to obtain new notes, they further added. Number of deaths occurred for want of medicines as the doctors refused to take denominations of 500 and 1000. The author felt that in order to relieve from this unnaturally created agony partial roll back of 500 denominations must be taken as; change for 2000 note for small transactions was another big problem for the common people. They suggested that more smaller denominations notes must be ensured in bank and ATM’s quite ahead before so that this acute shortage of notes were not felt as people would already had in their pockets. reviewed the general implications of the Demonetisation, especially its impact on informal sector. They observed that without adequate and proper planning; the Demonetisation-driven cash crunch rendered Indian economy paralyzed for short duration as the informal sector which comprises of 40 percent share in GDP became unviable.

Alok Prasanna Kumar, in an article in Economic and Political Weekly (EPW), observed that while the Demonetisation sounded legally sound, however, the manner in which the government has responded to events afterwards has been chaotic and misguided. He further noted that the daily announcements with changing rules and new prohibitions not only cause disorder, but also undermine the rule of law in the country. He gave reference of Fuller (1964) and mentioned that the cornerstones of what constitute rule of law are stability and certainty in norms. And in this context the author noted that the daily barrage of

Demonetisation announcements, ad hoc and ill-thought-out as they are, also point to a fundamental breakdown in the rule of law. He pointed out the government's preparedness to carry out such vast exercise, 'given the vast scale of the Demonetisation exercise, affecting as it does every part of the country and virtually every sector of the economy, the haphazard way in which it is being carried out suggests a regime ill-equipped, or simply incompetent, to do it properly.' He questioned the government's move, as according to him the lasting impact may be the general populace's loss of faith not only in the currency but also in the government's ability to govern in accordance with the rule of law.

Nikita Gajjar, in her research paper, observed that in the present era, issue of black money has come into forefront of the society with active participation of our youth and parliament. Although the main aim of her research paper was to know the present status of black money in India & its future challenges, however, she tried to evaluate the framework, policy options and strategies of government of India to deal with the issue. While exploring the present status of black money in the country the study included sources from where black money is generated and its uses in country at different levels. This study also tried to examine the main reasons behind the generation of black money, i.e., corruption, and showed up the extent to which the corruption leads to generation of black money along with its impact on various sections of the society. The study concluded that there is no doubt that existence of black money has a significant impact on social, economic and political levels of our society which has also significant effect on the institutions of government and the conduct of public policy in the country.

Demonetisation: Impact on Economy, a research conducted with this title by the tax research team of National Institute of Public Finance and Policy (NPFPP) concluded that the Demonetisation undertaken by the government is a large shock to the economy. The impact of the shock in the medium term, according to this study, is a function of how much of the currency will be replaced at the end of the process and the extent to which currency in circulation is extinguished. The study further noted that 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, however, according to the study, this argument is based on impressions rather than on facts. The study observed that while the cash was mediating in legitimate economic activity, if this currency is extinguished there would be a contraction of economic activity in the economy and that is a cost that needs to be factored in while assessing the impact of the demonetisation on the

economy and its agents. The study also observed the surge in the bank deposits and suggested that while interpreting the phenomenon, however, one has to keep in mind that a large part of their deposits were earlier used for transactional purposes.

Kobad Ghandy, examined, in his article, the stated reasons for the 8 November announcement to demonetise `500 and `1,000 notes such as eradication of black money, counterfeit currency, and paving the way for a cashless society. He observed that these issues are not addressed by demonetisation and one cannot justify the suffering this move has unleashed on the poor and the middle classes. He further noted on the basis of media reports, that the worsening situation in urban areas has been extensively reported in the media—not only the wage-earning poor but the middle class too are adversely affected by the overnight artificial and extreme loss of purchasing power. According to him, millions of working hours are being wasted by people standing in long queues at banks, and many are turned away eventually with the new cash running out. He expressed concerns. “The country is being driven into an artificially created recession and the level of economic activity is declining.” In favor of his argument he quoted a projection regarding the possible slip in the India’s growth rate, “Ambit Capital estimates that India’s growth could slip to as low as 3.5% as a result of Demonetisation compared to earlier projections of 6.8% (Hindu 2016).”

Parul Mahajan and Anju Singla: in their research article they studied the effect of Demonetisation on various participants of financial inclusions which includes ordinary individuals, informal sector, rural population, MSMEs, NBFC, MFIs and E-wallet companies. The findings of the study reveal that ordinary individuals were the most adversely affected. According to them, RBI statistics shows that 80 percent of monetary circulation in India consisted of Rs. 500 and Rs. 1000 notes. This Demonetisation is putting more than 80 percent of the country’s monetary economy under suspicion of black money. They felt that this step created confusion between “unaccounted money and “black money. They opined that the government’s move towards Demonetisation aims to convert black money into white money but inclusive growth can be achieved only if this money is used for development purposes. They observed that a new type of deposits called benami deposits have also come up with Demonetisation. The felt that with the aim of achieving financial inclusion along with making India a cashless and digital economy, efforts are required to make technology reach the bottom of the pyramid. They opined that the development contemplated is in the sense of smart cities and cashless economy, but for India to be a cashless and digital economy; sufficient time and efforts are required as the process cannot be

completed over night or fortnight or within months. They compared the recent Demonetisation with the earlier examples and noted in the conclusion that this Demonetisation is much different from the 1978 Demonetisation which never really affected ordinary people. The 1978 Demonetisation covered notes of Rs 500 and Rs 1000 and those denominations were hardly used by the common man. The hundred rupee note was what most people used. They pin pointed the differences between the two examples and further noted in the conclusion, 'in comparison to present scenario, the effect has been largely upon the ordinary man than on the ones who are the main contributors to the black money'. Finally they recommended, "with the aim of achieving financial inclusion along with making India a cash-less and digital economy, efforts are required to make technology reach the bottom of the pyramid. For this purpose, the young generation should be leveraged upon to educate and support the poor, rural and elderly with digital literacy and transactions."

C Rammanohar Reddy in his book "Demonetisation And Black Money"²², "Reddy shares the overwhelming opinion among economists that Demonetisation has inflicted significant costs on the economy, with the poor suffering the most. He also believes that its benefits are not just uncertain, but could also have been realized through other, less hurtful policies.

The book is divided into four sections that deal with a general discussion on black money and Demonetisation, the assessment of the design and implementation of Demonetisation policy, its impact on the common people and polity, and its impact on India's banking sector.

This book analysis of Demonetisation 2016, the nature of Black money, the link between Demonetisation with black money and the effect this major event had on the people of India. The second strand is a discussion of what could have been done differently, causing less disruption to the economy and minimizing the hardship to citizens. The third strand is an examination of new objectives like digitization that have emerged after the announcement."

If we examine the major position of the review mentioned above then it is clear that majority of the writers and researchers criticized the governments' step of Demonetisation basically on following grounds;

- Its negative impacts on informal sector,
- Lack of preparedness from government side,
- Unnecessary and artificial shock to economy

- Suffering of people, especially during the peak impact
- Indication of no or less long term benefits

On the other hand, various reports and press releases published from the government side upheld this step as one of the historical decision which would bring betterment in the economy in long term.

View of World Bank's CEO: In an interview with daily English news paper, Hindustan Times (Mar 02, 2017 22:38 IST), Kristalina Georgieva, CEO, World Bank, expressed that "Demonetisation" may have caused some hardship to people living in the cash economy but in the long run the move will help foster a clean and digitized economy. She further added to the discussion, "What India has done will be studied (by other countries) as there hasn't been such Demonetisation in a country so big." She praised the decision and compared it with that of the European Union, which is also phasing out high denomination bills but over a longer period of time.

IMF spokes person, Gerry Rice, supported the decision while talking to the reporters of India Express on 11th November, 2016. He said IMF supports India's efforts to fight corruption through the currency control measures announced this week, but stressed taking care to minimize disruptions in the economy. "We support the measures to fight corruption and illicit financial flows in India," IMF spokesman Gerry Rice told reporters. However he cautioned the authority for minimizing possible disruption, "Of course given the large role of cash in everyday transactions in India's economy, the currency transition will have to be managed prudently to minimize possible disruptions."

Economic Survey: Demonetisation has been a radical, unprecedented step with short term costs and long term benefits. The liquidity squeeze was less severe than suggested by the headlines and has been easing since end-December 2016. A number of follow-up actions would minimize the costs and maximize the benefits of Demonetisation. These include: fast, demand-driven, Demonetisation; further tax reforms, including bringing land and real estate into the GST, reducing tax rates and stamp duties; and acting to allay anxieties about over-zealous tax administration. These actions would allow growth to return to trend in 2017-18, following a temporary decline in 2016-17.

Press Release, DEA, MF, GOI (presented in 'as it is' form): With a view to curbing financing of terrorism through the proceeds of Fake Indian Currency Notes (FICN) and use of

such funds for subversive activities such as espionage, smuggling of arms, drugs and other contrabands into India, and for eliminating Black Money which casts a long shadow of parallel economy on our real economy, it has been decided to cancel the legal tender character of the High Denomination bank notes of Rs.500 and Rs.1000 denominations issued by RBI till now. This will take effect from the expiry of the 8th November, 2016.

- Fake Indian Currency Notes (FICN) in circulation in these denominations are comparatively larger as compared to those in other denominations. For a common person, the fake notes look similar to genuine notes. Use of FICN facilitates financing of terrorism and drug trafficking. Use of high denomination notes for storage of unaccounted wealth has been evident from cash recoveries made by law enforcement agencies from time to time. High denomination notes are known to facilitate generation of black money. In this connection, it may be noted that while the total number of bank notes in circulation rose by 40% between 2011 and 2016, the increase in number of notes of Rs.500/denomination was 76% and for Rs.1,000/- denomination was 109% during this period. New Series bank notes of Rs.500/- and Rs.2,000/- denominations will be introduced for circulation from 10th November, 2016. Infusion of Rs.2,000/- bank notes will be monitored and regulated by RBI. Introduction of new series of banknotes which will be distinctly different from the current ones in terms of look, design, size and colour has been planned.
- The World Bank in July, 2010 estimated the size of the shadow economy for India at 20.7% of the GDP in 1999 and rising to 23.2% in 2007. There are similar estimates made by other Indian and international agencies. A parallel shadow economy corrodes and eats into the vitals of the country's economy. It generates inflation which adversely affects the poor and the middle classes more than others. It deprives Government of its legitimate revenues which could have been otherwise used for welfare and development activities.
- In the last two years, the Government has taken a number of steps to curb the menace of black money in the economy including setting up of a Special Investigation Team (SIT); enacting a law regarding undisclosed foreign income and assets; amending the Double Taxation Avoidance Agreement between India and Mauritius and India and Cyprus; reaching an understanding with Switzerland for getting information on Bank accounts held by Indians with HSBC; encouraging the use of non-

cash and digital payments; amending the Benami Transactions Act; and implementing the Income Declaration Scheme 2016.

Many industrialists expressed their views in favor of Demonetisation and rejected a fair amount of criticism as the 'political criticism'. Views of few of them are presented below:

Adi Godrej: In an interview with PTI Adi Godrej, one of the prominent industrialists of India said, "Demonetisation may have had "considerable negative effect" in the first few days but the situation now has improved and it will have a positive impact on the economy." He further added, "It would help combat black money and reduce corruption, while having a positive result on the economic front. "As far as the effect on the economy is concerned, he continued, it will have a considerable negative effect in the first few days after the policy was announced in November. "But since then the situation has improved quite considerably and we are seeing a strong pickup in demand of many of our products now," Godrej told PTI. He further said there is a fair amount of cash injected into the economy and more is being injected regularly. "So I expect a very quick tick up on the economic front also." When asked whether Demonetisation has hit rural sales, which was expecting a good season riding on good monsoon this year, Godrej accepted, "Of course, it would dampen the sales but it's catching up very soon. Whatever the stocks were reduced at retailer's end will be replenished very soon. December would be a good month." Most importantly, disagreeing with the opponents of Demonetisation, he said: "A lot of the criticism to my mind is political criticism because the politicians have been hurt."

Ratan Tata: Tata sons chairman Mr. Ratan Tata expressed his views (on 22nd November 2016) on the government's move to demonetize high value currency notes as a bold act and according to him it will eliminate black money and corruption. He tweeted, as reported on the website of economic express, "Demonetisation of old currency notes by the Modi government is a bold act that will wipe out black money and corruption. It deserves our support," he said in a tweet. Later on 26th November, he said about Demonetisation, as reported by PTI, "it is one of the "three most important economic reforms" in India's history and people must support the government for it." He further went on saying, "The prime minister has displayed enormous courage in waging war on the black market economy in the country through the implementation of a major Demonetisation programme."

Anand Mahendra: Noted industrialist Anand Mahendra backed the government's step of Demonetisation and expressed, ""He (Prime Minister Modi) has created transparency and

traceability. He has changed the mindset (in such a way that) everybody is going to think twice about going back to their old ways and from what I understand, the conversion to digital has occurred at a pace much faster," at the annual NILF here.

Similarly many others industrialists supported the government's decision and prominent among them are Aditya Puri, and Mukesh Ambani. Puri, who heads the second largest private sector lender HDFC Bank, concurred, saying, "*Demonetisation is being demonized for nothing*" and listed several positives from the move. "Thanks to demonetisation, India has taken a big leap forward from a predominantly cash economy to a digitally enabled optimal cash economy. It has brought unproductive money into productive use, Ambani said while addressing the India Today Conclave.

It is evident from the literature review that majority of the opinions and concerns were based on media reports and analysis of secondary data. Many times the concerns on such issues are heavily opinionated. This review also pointed towards that fact that there is no comprehensive study on the impact of Demonetisation which is based on primary sources of information. In light of this gap the proposed study tries to address this gap by combining information collected from primary sources' with the findings of the data from secondary sources.

1.8. Research Gaps

It can be understood that the decision regarding Demonetisation was a very difficult one and Prime Minister himself acknowledged the same when he appealed people to be prepared for the hardship during next 50 days. However, the findings of majority of the reports and studies published after the Demonetisation presented a very grim situation of and a dismal ground reality. According to many of the reports the economy received a heavy jolt and the agriculture and informal sector was virtually destroyed. However, none of these reports have any comprehensive support from ground reality as almost all of them are based on secondary information, media reports and sometimes on speculations based on stereotypical approaches toward the issues. Victory of ruling party in elections after the Demonetisation reinforce the view that most of these reports regarding sufferings of ordinary people are based either on groundless speculations, or politically motivated, or heavily opinionated. It can also be understood that most of the reports came from the economists; and there are chances that many of them may be heavily opinionated. None of the report or study reviewed was carried out by independent researchers and based on first hand primary information. In light of this

important gap, proposed study would endeavor to consult people in target area and would collect first hand information from them regarding the real impact of Demonetisation in their lives. However, final conclusion of this research would be based on both, i.e., the findings of field survey and robust analysis of the secondary information from relevant sources.

1.8.Scope of the Study

There is no doubt about the fact that the Demonetisation drive initiated by the Indian Government is going to have far reaching impact on the Indian Economy. It is being considered as one of the most significant step in tackling the black money issue that has gripped our country since many years. Some of the effects of the Demonetisation measure are:

- a) The total currency in circulation as on Oct 28, 2016 was INR 17.54 lakh crores. According to the Reserve Bank of India (RBI), 86% of this component is in currency notes of INR 500 and INR 1000 denomination. Therefore, the currency that is being attempted to be demonetized is around Rs. 15 lakh crores. It is being estimated (internal estimates) that around 20% of this currency is in black. We believe that this money either will not come back into the system for exchange for new notes or will be surrendered as black money and taxes thereon will be paid.
- b) The deposit of these notes with the Commercial Banks ends on December 30th, 2016. Thereafter, currency notes will have to be deposited with RBI till Mar 31st, 2017. We believe that after this date, the RBI will reduce Notes in Circulation to the extent of the money not deposited. To match its liability, it will have to reduce its asset or increase its liability. Increasing its liability would mean increase in its Net Non- Monetary Liabilities (or reserves) and declare special dividend (just an accounting entry) to the Government. The Government, in turn can reduce its bonds on the RBI's balance sheet by buying its bonds back from the reserves transferred by the RBI. The government will have multiple options about what it could do with this special dividend. It may reduce domestic outstanding debt, prepay external debt, reduce fiscal deficit as interest cost drops, and reduce its borrowing for following years. Improvement in debt/Gross Domestic Product (GDP) ratio should also help improve the country's sovereign rating by the International Agencies. RBI's balance sheet also frees up for supporting liquidity requirements of the banking system.

- c) On the other hand, the banking sector is going to see a surge of liquidity as deposits get collected. Based on our assumption (internal estimates) that (20% of currency will not be tendered back), there is going to be tendering of currency from the public to the tune of Rs. 12 lakh crores (80% of Rs. 15 lakh crores). Due to the temporary restrictions on withdrawing cash, our internal estimate is that at least 50% of the cash will remain within the banking system, i.e. of Rs. 6 lakh crores. This sudden surge in deposit of 6% of current aggregate deposits will help in improvement of liquidity. This will lead to demand for fixed income securities, particularly government securities.
- d) According to a World Bank estimate in 2007, around 20-25 % of India's GDP is the size of the parallel black economy. The steps taken by the Indian Government has led to a scare in the parallel black economy and should lead to better tax compliance going ahead. This will have a telling effect on the other heavens of black money i.e. real estate and gold. Both these sectors are going to witness reduced demand. Lower demand for gold resulting ultimately in lower import of gold is expected to improve the current account balances. The Indian rupee should remain stable and display appreciating bias against hard currencies, as the current account improves and may also move into surplus.
- e) The sudden change due to reduced cash transaction will lead to reduction in economic activity. We believe that the services sector growth will be majorly affected. This will lead to lowering of inflation expectation and moderation of headline inflation too. However, the effect on inflation would depend on the moderation in economic activity in those sectors that have heavy cash transactions. RBI will find larger room to reduce repo rates with moderation in inflation.
- f) There are some other positives expected over the medium to long term. A more compliant economy should increase tax collections and tax to GDP ratio should improve from both direct and indirect tax. In future, an increase in use of plastic money rather than hard currency would also lead to higher money multiplier which will be more productive.

1.10. The Fight against Corruption, Terror Funding, Counterfeit Currency and the Black Economy should Result in,

- i. Rate reductions due to lower inflation and inflationary expectations.
- ii. Stable to appreciating INR as Current account deficit improves due to lower demand for gold.

- iii. Higher tax to GDP.
- iv. RBI freeing up balance sheet as liability declines.
- v. Government would be able to bring down its outstanding debt liability and improve fiscal deficit.
- vi. Immediate near term impact – decline in cash transactions may lead to reduction in consumption demand leading to some decline in the GDP growth.

1.11. Objectives

Keeping above fact that it is necessary to find out the short term effects of Demonetisation on rural urban people following objectives has been formulated for the study:

- ❖ Find out the factors behind the sudden launch of Demonetisation of high value currency notes by Government.
- ❖ To find out the level of consequences of Demonetisation on Production and Employment.
- ❖ Find out the extent of reducing level of Inflation after launching of Demonetisation of high value currency notes.
- ❖ To study on how far the Demonetisation increases the Digital Payment mode.

1.12. Hypothesis

In order to study the short term effect of Demonetisation on rural and urban people and its policy importance, following hypotheses were planned:

Null hypotheses (H_0):

- i. There is no solid reason related to behind launching of Demonetisation in India.
- ii. It is expected that existence of corruption remains constant and is not affected by Demonetisation.
- iii. Production and employment are not affected after launching of Demonetisation.
- iv. After sudden launch of Demonetisation the direct tax revenue income of government was unchanged.

1.13. Data Sources and Research Methodology

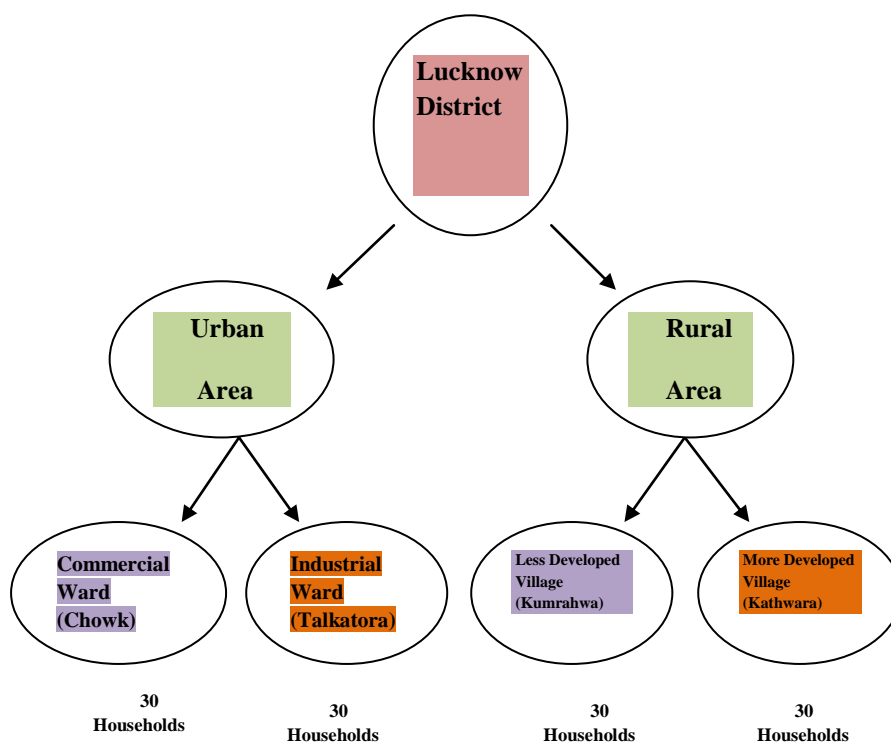
1.13.1. Secondary Data

The proposed study would be based on secondary data as well as on primary data. A review report will be prepared based on literature available on web and at other secondary sources. Secondary data on various factors related to Demonetisation from the following sources will be collected to meet out the objectives.

- Annual report published by the Reserve Bank of India.
- Economic Survey 2016-2017, 2017-2018
- RBI report on Macroeconomic Impact of Demonetisation- A Preliminary Assessment.
- Handbook of Statistics published on Indian Economy, Reserve Bank of India.
- Archives of Indian express newspapers, and Economics times.
- Archives of Economic and Political weekly.
- Annual Report of Ministry of Statistics and Programme Implementation (MOSPI)

1.13.2. Primary Data

A survey will be conducted for collection of primary data as per the objectives of the study. A survey schedule would be developed and 120 households of the proposed study site will be surveyed for the collecting the primary data. Four different sites, i.e., two rural and two urban will be selected for collection of primary data. Furthermore, out of two sites, or villages one would be more developed and other would be less developed based on their performances against the key development indicators and also on economic activities in the area. This means the survey would be conducted in more developed and less developed sites which include one more developed village and other less developed village along with two urban sites (wards) one is Industrial area other is commercial area. Sample of households from each area will be selected through proportionate to probability sampling. It is assumed that about 30 households per villages/wards will be selected for the proposed study. The primary survey will be done through scientifically well-structured questionnaires.



Sampling Procedure for Selection of Households

1.14. Analysis of Data

Data collected from the field survey would be cleaned in the field itself and then it would be entered into computer software through appropriate data entry software i.e .SPSS CSPro. Quantitative analysis software would be used to get the output as per the analysis plan based on the objectives of the study.

1.15. Chapterisation of the Study

- I. Demonetisation: An Introduction
Factors behind the Sudden Launch of Demonetisation,
- II. Conceptual and Theoretical framework.
- III. Short Term Economic Impact of Recent Demonetisation on Production, Employment, Inflation and Digitalization.
- IV. Social Responses on Impact of Demonetisation
- V. Conclusion and policy Implications.

Factors behind the Sudden Launch of Demonetisation

1.16.0. Background

When Prime Minister of India made annunciation regarding cancelation of legal tender status of R.1000 and Rs.500 notes, it was an unprecedented step as this was the first time in the world when any government suddenly demonetized its currencies during normal economic or political conditions. Previous examples of sudden Demonetisation took place either during extreme political conditions, e.g., war, revolt or political upheavals, or during acute macroeconomic conditions such as hyperinflation. In contrast, at the time of Demonetisation, Indian macroeconomics was showing positive signs backed by impressive reforms and India was the fastest growing major economy in the world. However, the secrecy and suddenness caused many to raise questions and to explore the motives behind this announcement. However if we closely examine the wordings of the press release Department of Economic Affairs, Ministry of Finance, GOI, and examine the same in the context of government initiatives of curbing black money, recent rise in the insurgency in J&K, increased activities of naxalites and evidences of subversive activities by use of Fake Indian Currency Notes (FICN), one can easily find the answers behind the secrecy and suddenness associated with this decision. The press release says;

“With a view to curbing financing of terrorism through the proceeds of Fake Indian Currency Notes (FICN) and use of such funds for subversive activities such as espionage, smuggling of arms, drugs and other contrabands into India, and for eliminating Black Money which casts a long shadow of parallel economy on our real economy, it has been decided to cancel the legal tender character of the High Denomination bank notes of Rs.500 and Rs.1000 denominations issued by RBI till now. This will take effect from the expiry of the 8th November, 2016.”(Press release, Department of Economic Affairs, MoF, GOI)

Economic survey of India (2016-17) described the aim of this action as fourfold: ‘to curb corruption; counterfeiting; the use of high denomination notes for terrorist activities; and especially the accumulation of “black money”, generated by income that has not been declared to the tax authorities.’ A careful examination of the press release and the aims described in Economic Survey point towards two broad objectives; 1) urgent need of curbing terror funding and subversive activities by eliminating counterfeit Indian currency and 2) targeting Black Money, corruption and associated accumulation of wealth. Let’s examine

both the objectives with specific context of why only high denomination notes were demonetized.

Table: 1.2. Circulation of Money As end of March 2016

As of end- March 31, 2016					March 2016 over March 2015	As of 8 Nov 2016
Denomination (in Rupees)	Volume		Volume		Volume	
	Million Pieces	Percentage share	Rs Billion	Percentage change	Percentage Change	Rs Billion
Small 2,5,10,20 medium	48,565	53.8	463	2.8	6.19%	2,534
Rs 50 & 100 Small & Medium High	19,668	21.8	1,772	10.8	5.66%	
Of which 500	15,707	17.4	7,854	47.8	19.65%	
Of which 1000	6,326	7.0	6,326	38.6	12.72%	
All High Notes	22,033	24.4	14,180	86.4	16.45%	15,441
Total	90,266	100.0	16,415	100.0	14.88%	17,975

Source: Based on data extracted from RBI(2016), Handbook of Statistics on Indian Economy 2015-16

1.16.1. Terror Funding and Urgency to Eliminate Fake Indian Currency

Note (FICN)

1.16.1.1. Link between Terror Activities and FICN

A new surge in the terrorist activities has been witnessed in Indian state of J&K after the encounter of Burhan Wani in July 2016. Although terrorist activities in valley were on decline since 2001 however, a report from Kashmir Herald pointed towards the fact that terrorist infrastructure was growing and the financial sources of terror remained intact and unhindered. The report further goes on stating that approximately INR 250 to 300 million is pumped into Kashmir by Pakistan every month for supporting terror activities led by militant groups. Pakistan has also been involved in circulating fake Indian currency notes across the country through Bangkok, Nepal, Sri Lanka and Bangladesh and it has reportedly setup production units in Dubai to manufacture fake Indian currency notes. It was disclosed during an investigation led by NIA that Organizations such as Hizbul-Mujahideen has actively circulated these fake currency notes that comes from Pakistan across the country to fund their terror activities in Kashmir. It was reported that Indian agencies seized fake Indian currency notes worth approximately 107.33 crores, from January 2010 to June 2013. However, the issue of fake currency notes has not being restricted to just Kashmir, it has also been used by the Northeast insurgent groups in generate funds. The huge inflow of fake currency notes from Bangladesh has directly affected the Northeast. Media reports also pointed towards a link between FICN and naxal activities in affected states.

1.16.1.2. Link between FICN and High Denomination Notes

According to an article published with the title “Will PM Modi drive the stake into India's black heart?” in Economic Times on 17 November, 2016, the economic writer Mr. Chaitanya Kalbag, reported on behalf of RBI reports;

“ A total of 632926 counterfeit rupee bills were detected by banks in 2015/16: this is just 0.0000070% of the total bills in circulation on march 31, 2016 a total of 90,266,000,000 bank notes were in circulation, the RBI says there were 6.33 billion Rs. 1000 notes, and 15.7 billion Rs. 500 notes. Together the two account for 86.4% of total value of Rs. 16,415 billion in circulation. The value of banknotes with public has gone up to 17,013 billion rupees by October 28, 2016.” (Chaitanya Kalbag, Economic Times, 17 November, 2016).

Although, the article did not mentioned the value of 632926 counterfeit rupee bills, however, we can have make some estimates by seizer of fake Indian currencies by police and other agencies. As we have mentioned above, that Indian agencies have seized fake Indian currency notes worth approximately 107.33 crores, from January 2010 to June 2013. However this may be a fraction of real volume of FICN in Indian economy as the press release of Department of Economic Affair, Ministry of Finance, GOI, stated the observation of the department;

“Use of high denomination notes for storage of unaccounted wealth has been evident from cash recoveries made by law enforcement agencies from time to time. High denomination notes are known to facilitate generation of black money. In this connection, it may be noted that while the total number of bank notes in circulation rose by 40% between 2011 and 2016, the increase in number of notes of Rs.500/- denomination was 76% and for Rs.1,000/- denomination was 109% during this period.” (Press release, Department of Economic Affairs, MoF, GOI)

A significant portion of this increase, according to the press release, can be attributed to FICN. With the Demonetisation of Rs.500 and Rs.1000 currency government was able to give a temporary but effective jolt to those who are involved in generation and use of FICN. It was reported that there was a significant drop in the cases of stone pelting in the J&K after the Demonetisation. It was also witnessed that terrorists were involved in carrying out bank robbery for addressing their deteriorating financial needs after Demonetisation. Similar drop was witnessed and reported in naxal activities, just after Demonetisation. Above evidences support the Idea that one of the primary motive behind the sudden Demonetisation step was to curb new surge in terror activities, especially in J&K through eliminating the FICN.

Table :- 1.3. Notes in Circulation and counterfeit Currency

Items	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
1. Notes in circulation (million piece)	44,225 (11.0)	48,963 (10.7)	56,549 (15.5)	64,577 (14.2)	69,382 (7.4)	73,517 (6.0)	77,330 (5.2)	83,579 (8.1)	90,266 (8.0)
2. Notes in circulation of high denomination (Rs 100 and above) (million piece)	20,131 (2.0)	21,788 (8.2)	23,509 (7.9)	25,957 (10.4)	27,844 (7.2)	29,439 (5.7)	31,251 (6.2)	33,766 (8.0)	37,811 (12.0)
3. Notes in circulation of higher denomination (Rs 500 and above)	2,824 (50.7)	3,836 (35.8)	4,766 (24.2)	6,054 (27.0)	6,938 (14.6)	8,598 (23.9)	10,162 (18.2)	11,224 (10.5)	12,652 (12.7)
4. Counterfeit notes detected (no. of piece)	195,811 (86.9)	398,111 (103.3)	401,476 (0.8)	435,607 (8.5)	521,155 (19.6)	498,252 (-4.4)	488,273 (-2.0)	594,446 (21.7)	632,926 (6.5)
5. Counterfeit notes per million NIC[(4)/(1)]	4.4	8.1	7.1	6.7	7.5	6.8	6.3	7.1	7.0
6. Counterfeit notes vis-à-vis per million of high denominated notes[(4)/(2)]	9.7	18.3	17.1	16.8	18.2	16.9	15.6	17.6	16.7
7. Counterfeit Notes vis-à-vis per million of higher denominated notes [(4)/(3)]	69.3	103.8	84.2	72.0	75.1	57.9	48.0	53.0	50.0

Note: Figures in parentheses are year-on-year growth in percentage terms.

Source: RBI Annual Report, various Years.

1.17. Demonetisation to Target Black Money and Corruption

Citing a report of World Bank, the press release of Department of Economic Affairs, Ministry of Finance, GOI, mentioned the size of black economy in context of India in following words:

“The World Bank in July, 2010 estimated the size of the shadow economy for India at 20.7% of the GDP in 1999 and rising to 23.2% in 2007. There are similar estimates made by other Indian and international agencies. A parallel shadow economy corrodes and eats into the vitals of the country’s economy. It generates inflation which adversely affects the poor and the middle classes more than others. It deprives Government of its legitimate revenues which could have been otherwise used for welfare and development activities.”

The second motive behind the Demonetisation step as mentioned in the press release of Department of Economic Affairs was curbing the parallel economy of black money. It was mentioned that government has taken several steps towards curbing the black money and its genesis. The exact wordings of the press release are following;

“In the last two years, the Government has taken a number of steps to curb the menace of black money in the economy including setting up of a Special Investigation Team (SIT); enacting a law regarding undisclosed foreign income and assets; amending the Double Taxation Avoidance Agreement between India and Mauritius and India and Cyprus; reaching an understanding with Switzerland for getting information on Bank accounts held by Indians with HSBC; encouraging the use of non-cash and digital payments; amending the Benami Transactions Act; and implementing the Income Declaration Scheme 2016.” (Press release: Department of Economic Affairs, Ministry of Finance, GOI)

It can be understood that black money and corruption were the key issues which played role in bringing the NDA government in power during 2013 election. Voters have given unprecedented support to NarendraModi on the issue of black money. However, opposition has also used this issue to criticize the government, especially during various state elections. Corruption and curbing black money have been under the primary focus under the current government’s agenda as expressed by Finance Minister, Mr. Arun Jaitly, in one of his article after Demonetisation.

“The Narendra Modi Government had absolute clarity from day one that it would move against the shadow economy and black money. It’s first decision was to constitute SIT under the directions of the Supreme Court. The Prime Minister had proposed to the G-20 at

Brisbane that international cooperation in sharing information with regard to base erosion and profit shifting should be expedited. The arrangement with the United States furthered this object. The NDA Government completed its agreement with Switzerland that w.e.f. 2019, details of assets held by Indian citizens in Switzerland and vice versa would be provided to each other. Since 1996, the Double Taxation Avoidance Treaty with Mauritius was being renegotiated. The treaty effectively incentivized round-tripping. It was renegotiated. Similar treaties with Cyprus and Singapore have also been renegotiated. The Black Money Law dealing with illegal assets outside India opened a window for disclosure with 60% tax and provides a ten year imprisonment. The Income Declaration Scheme (IDS) 2016 was highly successful with a 45% tax. The PAN card requirement for cash transaction beyond rupees two lakhs put hurdles on expenditure through black money. The Benami law legislated in 1988 and never implemented. It was amended and has been put into action. The GST, which is scheduled to be implemented this year, will provide for better indirect tax administration and being a more efficient law will check tax evasion. The Demonetisation of high denominational currency notes was the big step in the same direction.” (Demonetisation-A look back at the last two months': Arun Jaitly's interview, Sun, 8 Jan 2017-05:59 pm , Mumbai , DNA webdesk)

Above statement of Finance minister of GOI and the press release of the Department of Economic Affairs are sufficient to indicate the curbing black money has been under the key priority for current Indian government and various steps had already taken in that direction, before the Demonetisation. Prime Minister Mr. Narendra Modi added during the 8th November, 2016 announcement that utmost secrecy was maintained and even their cabinet minister was not aware of this move. Many minister and Prime Minister himself revealed the reason behind maintaining unprecedented secrecy and according to them it was maintained in order to disallow black money hoarders and hawala traders to be alerted and to find any measure to transform their stored unaccounted currency into different form of money.

1.18. Corruption, Black money and Indian Economy

If we closely examine the trend of currency to GDP ratio in context of India we would clearly identify two distinct broad phases. We can notice a declining trend during initial decades after independence when this ratio started falling from 12% in 1952-53 to around 9% in 1967-68. Thereafter an upward trend can be noticed which resonated with the growth in the economy and accelerated during the boom of 2000s before it declined under the impact of

high inflation during late 2000s. This trend was again rebounded after 2014-12 with the rate of 12% when there was a declining trend in inflation. A major portion of this increase can be attributed to the increase in the value of high denomination notes (Rs.500 and Rs.1000) which can also be associated with rising living standard. Indian economy is relatively cash-dependent, if we compare it with other world economies. A robust analysis of cash to GDP ratio against the country's per capita GDP suggest that India's level is higher than its actual position as per the facts. This difference clearly suggest that some of the cash holding were not being used for legitimate transactions, but perhaps for other activities such as corruption. This assumption is also reinforced by a global report of transparency international which linked the cash with nefarious activities: the higher the amount of cash in circulation, the greater the amount of corruption. Various such reports and analysis indicate that in Indian economy the level of cash circulation is relatively higher than the level of corruption as reflected in the index of transparency international. In other words the level of corruption is much higher than anticipated by this index and in this sense any attempt to reduce the cash in the economy could have long-term beneficial impact.

1.19. Why High Denomination Notes were demonetized?

As mentioned above that high level of cash in the economy is associated with corruption, however, it does not always mean that there is a clear link between corruption and currency of high denomination. However, many writers mentioned that it is usually the case that high value notes are associated with corruption as they are easier to store and carry than other store of value, e.g., gold, (Sands, 2016; Henry, 1980; Summers, 2016; Rogoff, 2016). Then there should be an obvious question to emerge which is: how high were India's high denomination notes in context of their use for transactions relative to store of value. According to general rules higher a note is relative to income, less likely it is to be used purely for transactions purposes. However, in Indian case, the denomination/income ratio has fallen sharply over the last twenty five years due to growth in income against prevailing highest denomination notes. This clearly indicates towards the fact that high denomination notes have been increasingly used for transactions during the period. A comparative analysis of cross country data also points towards the same outcome suggesting that Rs.1000 note was used frequently for the transactions purposes as compared to other lower middle income groups countries high value currencies. Similarly, a relative 'soil rates', analysis (when compared to the soil rates of US\$50 and \$20 notes with Indian Rs.1000 and Rs.500 notes) estimates that around Rs. 3 lakh

crores of high denomination notes are not used for transactions and hence potentially form the black money which is substantially about 2 percent of GDP.

1.20. Conclusion

It can be concluded based on the above facts that the decision of Demonetisation of high denomination currencies was announced with high level of secrecy primarily with two broad objectives; (a) to eliminate the FICN from Indian currency and (b) to curb the black money and its genesis in Indian economy. Both objectives were directly and indirectly linked with the terror funding and subversive activities. The resurgence of terror activities in J&K valley and NIA findings regarding the link between FICN, Hawala and stone pelting might be the one reason for the timing announcement, however, government decisions and other steps indicate towards a systematic approach to curb black money and its sources.

Chapter: II

Conceptual and Theoretical Framework

2.0. Overview

Indian government demonetized the Rs.500 and Rs.1000 notes with an announcement of Prime Minister of GOI, on 8th October 2016. This led to numerous debates, at different platforms, on pros and cons of Demonetisation and its short, medium and long term impacts on Indian economy. This step raises unexpected speculations in the minds of ordinary people, economic administrators, institutions, experts, policy formulators, politicians, media personnel and researchers. India, as whole, was put into a state of mental and physical turmoil, fear, anxiety, and it was reflected into long queues before banks and ATMs, temporary break down in financial services and visible downfall in the economic performance against key growth indicators. Whereas every single person was speculative of the short, medium and long term impacts of Demonetisation, it would be quite relevant to understand the conceptual and theoretical framework of the same.

Demonetisation is linked to currency and its circulation as the most important component of the phenomenon; however, there are components and concepts, which need to be reviewed for the comprehensive understanding of the subject. While discussing and describing different concepts which define the conceptual and theoretical framework of 'Demonetisation' it would be enriching to shed some light on their historical perspectives. However, before delving into the key economic concepts and theories, e.g., classical, Keynesian, monetarism and new classical, etc., it would be helpful to start with understanding the key concepts of money, currency and distinguishing them with each other as majority of people do not understand the difference between both.

2.1. Money and its Functions

Although, the word "money" is believed to originate from a temple of Juno, on Capitoline, one of Rome's seven hills, however, the first evidence of the money, i.e., Mesopotamian shekel, came from Mesopotamia where it was used as the 'commodity money' around 3000 BC. Similarly, societies in America, Asia, Africa and Australia used shell money –often, the shell of the cowry (*Cypraea moneta* L. or *C. annulus* L.). Herodotus, "The Father of History", had mentioned that it was the Lyndians (Anatolian people living in ancient Lyndia) who first used gold and silver coins. However, as per the modern historians first stamped gold coins

were minded somewhere around 650-600 BC. William Stanley Jevons pointed towards the four functional aspects of money in '*Money and the Mechanism of Exchange*' (1875). According to him money serves as a **medium of exchange**, a common **measure of value** (or unit of account), a **standard of value** or deferred payment and a **store of value**. According to Wikipedia.org, "**Money** is any item or verifiable record that is generally accepted as payment for goods and services and repayment of debts in a particular country or socio-economic context, or is easily converted to such a form."

2.2. Definition of Money

Money has been defined differently by different economists as there is no unanimity over its definition. In Walker's words, "money is what money does." According to this we can include all those things in money which perform the function of money, i.e., medium of exchange, measure of value and store of value. Robertson defined money in following words, "a commodity which is used to denote anything which is widely accepted in payment for goods or in discharge of other business obligations." According to some other economists' money is, "anything which the state declares as money is money." Thus, money possesses legal sanction to discharge debts and perform other functions of money. A ideal definition given by Crowther's, who defined money as "anything that is generally acceptable as a means of exchange (i.e., as a means of settling debts) and that at the same time act as a measure and as a store value." in this definition it includes all three function; a medium of exchange, a standard of value, and a store of value.

2.3. Function of Money

As per the definitions money should have following functions:

Medium of exchange: The primary role of money is to facilitate the transactions of goods and services as a medium of exchange. For example, a producer sells their goods to the wholesalers or supplier in exchange of money and then the supplier/wholesalers sell the same goods to the consumers using money as the medium of exchange. As a medium of exchange, money has facilitated the development of trade and commerce all around the world and eliminated inconvenience which was faced in the barter system.

Measurement of Value: Measuring the value is also one of the primary functions of money as it is used to measure the value of various goods and services in an economy. In barter

economy it was very difficult to decide as to how much volume of goods should be given in exchange of given quantity of a commodity.

Store of Value: Money enables its holder to store the value as people can store surplus purchasing power and use it whenever they want. Saving in money is not only secure but its possibility of being destroyed is very less. Besides, it can be used whenever there is a need (Upadhaya,2014). Modern banking system has also enhanced this function of money as people can store value in banks in their accounts.

Standard of deferred Payments: This is a specific function of modern day's money as it can be used for the deferred payment. In other words besides being the basis of current transaction, money can also used for the deferred payments. Only money is such a commodity through which a form account of deferred payment can be maintained so that both creditors and debtors do not stand to lose.

2.4. Types of Money

In today's context as we think about money in the form of 'fiat money' which derives its value by government declaration (fiat) to be the legal tender and by this it must be accepted by the people and firms, as a legitimate form of payment, within the geographical jurisdiction of the government. However, if you consider the historical context of money then we can say that virtually anything can be considered money to the extent it performs the three above mentioned functions, i.e. medium of exchange, store of value and unit of account. Keeping this historical context in mind we can categorise money in different types. Typically, we can divide money into four types which are: commodity money, fiat money, fiduciary money, and commercial money.

Commodity Money: This is the simplest and oldest type of money which are/were built of scarce natural resources, e.g. gold, silver, shells, spices, etc. It is very close to the barter system (exchange of services and goods); however, it facilitates the commerce or economic transactions as it acts as a generally accepted medium of exchange. What is important about the commodity money is the fact that its value is defined by the intrinsic value of the commodity itself.

Fiat Money: Any form of money/currency which receives value from the authorities, i.e., generally by the government order (i.e., fiat). People and firms within the country necessarily require accepting such currencies (fiat money) as a legitimate means of payment due to government's backing. In other words such currency/money are declared as the legal tender by

relevant governments. All the currencies of modern economies, e.g., dollars, Rupee, Euro, etc., are fiat money. Important difference between fiat money and commodity money lies in the fact that the later is backed by physical commodity whereas the former is not. An important characteristic of fiat money is regarding its intrinsic value which is significantly lower than its face value and depends largely on its supply and demands.

Fiduciary Money: Receives its value from the confidence between the parties as generally accepted medium of exchange. Although it not declared as the legal tender by the governments, however, it is used as the regular fiat money as long as there is confidence among people that the associated promise will not be broken. Cheques, bank notes, or drafts are the major examples of fiduciary money.

Commercial Bank Money: It can be described as the claims against any financial institution and by which a person or an institution can purchase goods and services. Technically speaking the commercial bank money is generated through “fractional-reserve banking” which can be described as a process by which commercial banks give out loans of worth more than the value of the actual currency they have.

2.5. Forms of Money

Money can take different forms according to the use and context. Following are some of the examples of different forms of money:

Money of Account: Money of account refers to the unit in which the transactions of an economy are settled. It may vary from economy to economy.

Legal Tender Money: legal tender money is sanctioned by government which enforces its acceptability in the areas under its jurisdiction. Any amount of debt can be paid by this money. Generally legal tender money includes both notes (high face value) and coins (low face value).

Standard Money: If the entire value of an economy’s transactions is measured in a particular label, then we can say it as standard money. For example; Dollar, Euro, Rupee, Yen etc are standard money forms.

Full Bodies Money: Full bodied money is a form of money which is based on the intrinsic value. That is the face value of money will equal to the metallic value contained in the money. Ancient gold coins are the example of such forms of money.

Token Money: This is the advanced form of full bodied money. Token money is a form of money in which the face value is greater than metallic value. Rupee, Dollar, Euro, Yen and other paper currencies are the example of token money.

Bank Money/Deposit Money: Bank money refers to the deposits in the bank. Generally there are two types of deposits like time deposits and demand deposits. Time deposits are deposited by the people based on a specific maturity date.

Inside money and Outside Money: Today, people are borrowing loans and advanced from financial institutions. That is the private debt of inside the economy. This is actually meant by inside money. On the other side, outside money is the amount of money in the economy which created by exogenous unit, that is government. So government issued money is called outside money (hub pages, 2014).

2.6. Money and Currency

If one looks up the words “currency” and “money” in leading thesauruses and dictionaries, each word will probably be listed as a suitable linguistic alternative for the other. Furthermore, if you look up the definition of each of two words you would find no difference between them. However, it would be interesting to know that the concept and economic functions of them are completely opposite to each other. Following table compares the key attributes associated with both the terms;

Table-2.1: Money Vs. Currency			
Sl. No..	Attributes/qualities	Currency	Money
1	Medium of exchange	Yes	Yes
2	A unit of account	Yes	Yes
3	Portability	High	Low
4	Durability	Low	High
5	Divisibility	Yes	Yes
6	Fungible	Limited	Yes
7	Intrinsic value	No	Yes (silver and gold)
8	A store of value	No	Yes

We can see in the above table which compares the key attributes of currency and money that currency has no intrinsic value. Currency, which is generally the fiat money which a government declares as the legal tender, and it can be printed as much as they want, generally has inflationary characteristics. Its value depends upon its demand and supply and it generally carries low value than its face value.

2.7. Cryptocurrency

A cryptocurrency is a digital asset which is designed to play the role of a medium of exchange using cryptography to secure the transactions and to control the creation of additional units and verifying the transfer of assets. In other words, cryptocurrencies are a type of digital currencies, or virtual currencies which is also called alternative currencies. One of the major characteristics of the cryptocurrency is that it uses decentralized control rather than centralization in central banking systems and electronic money. The decentralized control of individual currency functions through a block chain, a public transaction database which functions as a distribution ledger. Bitcoin, which was created in 2009, was the first decentralized cryptocurrency. However, there were numerous other cryptocurrencies created after that which are commonly called altcoins, as it play the role of alternative coin.

India, a country steeped in mystery, history, and culture, it is also not one to fall behind when it comes to technological advancement especially when more than 40 percent of the country's population has access to telecoms and internet services. Bitcoin and other Cryptocurrencies have been operating within the country for a number of years now. By 2013, Bitcoin was beginning to gain a level of popularity that was spreading across many countries including India and a few businesses began to accept Bitcoin payment. A vintage era pizza shop called Kolonial in the Worli area of Mumbai was the first restaurant service in India which started accepting Bitcoin payments, in 2013. Many new Cryptocurrencies began to spring up within the country in a short space of time since then. BtcxIndia, Unocoin and Coinsecure started providing cryptocurrency exchange and trading in the country. With the course of time many other players such as Zebpay, Koinex and Bitcoin-India joined this league of crypto trading and exchange platforms. Today crypto market is a well established in the country. Besides that, there are many over-the-counter (OTC) crypto shops providing services in various parts of the country. Furthermore, many Bitcoin ATMs are also operational in major cities of India which are contributing into making of crypto economic hub in the country. However, despite

a population of 1.3 billion, India only contributes 2% of the total global cryptocurrency market capitalization as the market rates are quite higher than the global average.

2.8. Emergence of international Monetary Systems Historical Perspective

A **monetary system** is the set of institutions and mechanism by which a government provides **money** in a country's economy. Modern **monetary systems** usually consist of mints, central banks and commercial banks. International monetary system are sets of internationally agreed rules, conventions and supporting institutions, that facilitate international trade, cross border investment and generally the reallocation of capital between nation states. In an interdependent world international monetary system and related institutions facilitate the economic transactions and commerce between buyers and sellers of different nationalities; especially they provide means of payment acceptable to different parties of two and more nationalities, including deferred payment

2.9. Pre World War I era (1816-1919): Gold standard and first age of Globalization

The era from 1816 to 1919 was sometimes quoted as the first age of Globalization as there was a well integrated international financial order based on **Gold Standard**, in which Latin Monetary Union (Belgium, Italy, Switzerland, France) and Scandinavian Monetary Union (Denmark, Norway and Sweden), along with England, USA and Germany were the members and allowed members to accept each other's currency as the legal tender. The **Gold Standard** is a monetary system where a country's currency or paper money has a value directly linked to **Gold**. With the **Gold Standard**, countries agreed to convert paper money into a fixed amount of **Gold**. A country that uses the **Gold Standard** sets a fixed price for **gold** and buys and sells **gold** at that price. This fixed price is used to determine the value of the currency of that particular country, e.g., in case, U.S. government sets the price of gold at \$500 per ounce and therefore the value of the dollar would be 1/500th of an ounce of gold. Gold standard gained international significance since 1821 when England officially adopted it and emerged as international gold standard by 1871 after Germany toed the line. By the 1900, the majority of the developed nations had adopted the gold standard. However, gold standard is not in practice today (Britain abandoned it in 1931 followed by USA in 1933) and gold money was completely replaced by the fiat money, i.e. currency that is used because of a government's order — or fiat — that the currency must be accepted as a means of payment.

This period was the golden era for the **Classical Economist**, i.e., Adam Smith, David Ricardo and their followers, who believed that principle of **laissez-faire** (free-Market Capitalism) was the solution of all the economic issues and would lead the world towards ultimate growth and development. Classical economist believed that there is no role of government in monetary and economic issues and market forces would automatically provide solutions to economic issues.

2.10. Between the World Wars (1919-1939): De-Globalization

This period which witnessed the downfall of gold standard has been described as the period of *de-globalization*, due the reason that both international trade and flow of capital shrank to the level of pre World War I level. When major countries started abandoning gold standard by the early 1930s, there emerged a chaotic and fragmented system of floating exchange rates, in which currency value was allowed to fluctuate for safeguarding the interests of nations. Most of the countries tried to protect their gold reserves, amidst the two World Wars, and followed deflationary policy with raising the interest rates, especially during this period when lower interest rates were advocated for encouraging growth. The two World Wars significantly indebted Great Britain to United States and facilitated the emergence of later as the world financial super power replacing the former. The economy of United States registered unprecedented growth during 1920s till 1928. However, early symptoms of the **Great Depression** started impacting the economy during late 1920s which further intensified in 1930s leading towards a complete halt. Many US banks collapsed and financial institutions received a sever jolt during this period. In the backdrop of Great Recession, a British economist, **John Maynard Keynes**, propounded a new economic theory, in his book '*The General Theory of Employment, Interest, and Money*,' in 1936, in which he questioned the classical theory of no interference by government in matters related to market and economy and stressed the need of government's intervention during the time of recession. According to Keynes, government's role is important in stimulating the country's economy, during the recession, by reducing the interest rate (monetary policy) and government investment in infrastructure (fiscal policy).

2.11. The Bretton Woods Era: 1944-1973

American and British policy makers started conceptualizing the nature and form of post war international monetary system even before the end of Second World War. **John Maynard**

Keynes and **Harry Dexter White**, an American economist were the principal architects behind the concept of new international monetary system with objective to create an integrated and liberal international system with freedom for governments for addressing the domestic issues regarding employment and social welfare. An international conference took place, in 1944, at Bretton Woods, USA, in which 42 countries endorsed a plan conceptualized by these two economists. During this conference, which is initially know a Bretton Woods conference and later on formally declared as the **United Nations Monetary and Financial Conference**, participating nations agreed to a system of fixed but adjustable exchange rates where all the currencies were nations agreeing to a system of fixed but adjustable exchange rates where the currencies were pegged against the US dollar, and with the dollar itself convertible into gold. This simply meant that the new international system was actually based on a gold-dollar exchange standard. In order to uphold the new order two international institutions, i.e., **International Monetary Fund (IMF)** and **World Bank** were created during the conference. However, US gold reserve was put under the tremendous pressure under this system which ultimately led President Nixon to end all convertibility into gold on 15 August 1973, marking the effective end of the Bretton Woods system.

2.12. Post Bretton Woods System (1973-2009) Washington Consensus

While the term for the post Bretton Woods's system, i.e., Washington Consensus, was coined in 1989, the associated order came in effect during early late seventies. According to economic historians the span of Washington Consensus was from 1980-2009. Washington Consensus reflected a transition from state led switch of Bretton Woods's system to a market led system, which led the Deng Xiaoping's reforms in China (since 1978) and liberalization of Indian economy since 1991. However, after the global economic shock during 2008-10, world leaders, economists and policy makers started looking towards a new system which they call "New Bretton Woods."

2.13. Major Economic Theories

2.13.1. Classical Economics

Adam Smith's *The Wealth of Nations* (1776) was the main treatise which marked the beginning of classical economics or Liberal Economics, which asserted that markets function at optimal levels when government interferes minimal. This book stressed on the trade rather than on hording the gold as according to this book, exchange of things of value, in a free

atmosphere, would create profit or wealth for both the parties. A logical corollary of this idea was the wide international acceptance for the **free markets** against the protectionism which was practiced by many nations during the time. Majority of the thinkers of the time such as David Ricardo, Jean-Baptiste Say, Thomas Robert Malthus and Jaun Stuart Mill, also contributed in development of classical economics, during late 18th and early 19th century. It would be understood that the classical economics is fundamentally different than the modern **libertarian economics** as later emphasizes on the active role of state for promoting common good. Although, Smith had identified some areas where he believed that market could not play effective role in serving towards common good, however, instead of quoting the role of government, he maintained that the greater proportion of the costs against the common good should be borne by those who could be in best position to afford them. According to classical economics, markets normally regulate themselves by as Adam Smith metaphorically referred “invincible hand”, when there is no coercion or control. Repeatedly pointing towards the dangers of monopoly, Smith stressed on the importance of competition under which private incentives aligned with the society welfare.

2.13.2. Keynesian Economics

The free market utopia was shattered during the late 1920s and major economies in the world were caught under the Great Depression and classical thinker could not understand the causes behind it. A British economist **John Maynard Keynes**, argued in his book (1936), *The General Theory of Employment, Interest and Money*, that solution to the **Great Depression** was in stimulating the country’s economy through a combined effort of reducing the interest rates (monetary policy) and spending by government on infrastructure (fiscal policy). Basics of the ‘Keynesian economics’ lie in denouncing the ‘**aggregate supply-focused**’ classical economic approach, especially to understand the depression, or recession in the short run. According to Keynesian economists economic output is strongly influenced by **aggregate demand** (total spending in the economy), especially during recessions. In other words, Keynesian economics is a theory of total spending in the economy (called aggregate demand) and its effects on output and inflation. However, according to them aggregate demand is influenced by a range of factors and it does not necessarily reverberate the productive capacity of the economy. Aggregate demand, according the Keynesian economists, sometimes, behaves unpredictably affecting production, employment and inflation, as it is based on a host of factors.

2.13.3. Monetarism

Monetarism, which is an important school of thought in monetary economics, emphasizes the government's role in controlling the money supply in circulation. Monetarists are primarily influenced by the work of **Milton Friedman**, who at one time accepted the Keynesian economics and later on criticized the theory of fiscal policy of inducement for investment by government spending. He wrote a famous book, "*A Monetary History of the United States, 1887-1960*", with his coauthor **Anna Schwartz**, in 1963. They argued in this book that 'inflation' has always been imbibed in any monetary phenomenon. Friedman advocated for a central bank policy for keeping the supply and demand for money under the equilibrium in relation to productivity and demand. According to monetarists, variations in money supply impact the national output in short run and price levels in longer duration. According to them, the major objectives of any monetary policy should be to focus on the growth rate of the money supply instead of irrational and discriminatory monetary policy.

2.13.3.1. Critique of Monetarism

Many economic events, especially since 1990, force economists and thinkers to argue the efficacy of monetarism in dealing with sustainable growth of economy. Many events which were criticized by economists as being inexplicable with monetarist point of view included unhinging of the money supply growth from inflation of 1990s and the failure of basic monetary policies in stimulating the economies during 2001-03. It was experienced that when the economies were stagnant and nominal interest rates were close or equal to zero, the traditional monetary policy tools could not be effective. One of the economists David Hackett conducted a study and titled 'The Great Wave', in which he questioned the implicit basis of monetarism by examining data on inflation which stretched over decades. Milton Friedman, the main proponent of the Monetarism, accepted in an interview with Financial Times, in 2003, that monetary policy of monetarists have not been that effective and he is quoted as saying "The use of quantity of money as a target has not been a success. I'm not sure I would—as of today—push it as hard as I once did." Major points raised by the critiques of Monetarism include;

1. Growth in the money supply is erratic due to structural change in economy making controlling the money supply meaningless.

2. Controlling Money supply can lead to recession. For example, in the 1980s, the UK pursued strict Money supply targets but this caused a deep recession. This was because monetary policy was too tight trying to meet artificial money supply targets.
3. Why not target inflation directly? If you want to control inflation, it makes more sense to target inflation directly rather than through the intermediary of the money supply.
4. Not all measures of the Money Supply M0, M2 M4 move at the same rate. The money supply growth depends on which measure is used
5. Evidence in the 1980s showed that the money supply could grow much faster than the price level suggesting the link was not very close.
6. The Velocity of Circulation V is not stable, but can change due to factors such as increase in the use of credit cards.
7. The increase in borrowing has led to an increase in M4 as more people can save money in time deposit accounts. More cash machines has meant that there has been an increase in M0
8. Monetarists say that Income can vary in the short run, but the short run could be a long time and therefore make monetary policy ineffective, Keynesians argue that the LRAS is not necessarily inelastic they argue that the economy can be below full capacity for a long time

2.14. Neoclassical Theory And Neoclassical Synthesis

Neoclassical economics puts emphasis on supply, demand and other determinants and factors of production system, especially at macro level. According to neoclassical economists income generated by individuals or profit of any firm depends upon supply, demand, production cost and other factors of production as per the rational choice theory which is a framework for understanding the social and economic behaviors of an individual or a group. According to **rational choice theory**, which is also known as choice theory or rational action theory, the aggregate social behavior is based on individuals and their decisions.

Neoclassical Synthesis Or Neoclassical-Keynesian Synthesis is a combination of Keynes's macroeconomic thoughts with the microeconomic insights of neoclassical economics and it has dominated the mainstream economics during recent times. Although it Samuelson have coined the term "neoclassical synthesis, however, it was **John Hicks** was the main thinker behind the development of this Neo-Keynesian synthesis, and it was popularized by Paul Samuelson, a mathematical economist. This synthesis was initiated by an article published by

John Hicks in 1937 which talked about the adaptations of 'supply and demand' model of Keynes and blended it with the incentives and costs as the role in shaping the decision making. One example of this synthesis is the consumer theory which explained how prices and income determined the quantity of demand by individuals.

2.15. Monetary Economics

Many significant economic events, which are jointly termed as 'Price Revolution', and which were reflected in high rate of inflation across Western Europe, took place during the second half of the 15th century to the first half of the 17th century sparked enormous interest in concept behind money and monetary economics. **John Law**, an Scottish economist, published his book 'Money and Trade,' in 1705, which examined the weaknesses and failure of metal-based money during last 150 years and advocated for replacement of metal-based money with paper money based on real estate value. Similarly, **Isaac Gervaise**, in 1720, wrote "*The System or Theory of the Trade of the World*," in which he blamed mercantilism and state-supported credit system and linked the same with prevailing inflation during that time. These initial work along with the '*Della Moneta*', written by Ferdinando Galiani, in 1751, and '*The Wealth of Nations*, of Adam Smith led the foundation of Monetary economics as a separate branch of economics which provides the much needed framework for analyzing money and its functions as a medium of exchange, store of value and unit of account. Major concerns of monetary economics included, e.g., understanding the linkage between the acceptance gained by fiat currency due to its convenience as a public good and examining the effects of monetary system under certain policy, i.e., regulation of money and associated financial institutions. Monetary economics has been historically linked to macroeconomics; however, a serious attempt has been made to understand the phenomenon of **demand for money** and the distinction between nominal and real monetary relationships for macro and micro context and its impact on the aggregate demand for output.

2.16. Monetary Policy

Monetary policy is a process which is defined by the monetary authority of any country with the goal to contribute into economic growth and stability by reducing unemployment and maintaining predictability in exchange rates with other important currencies. Monetary policy enables the central banks or currency board or other monetary authority of the country to have a control over the supply of money for ensuring price stability by targeting inflation rate and interest rates so that general trust in local currency can be maintained. Monetary policy

primarily deals with the interest rates and availability of credit and it was since 1970s that monetary policy has been formed separately from the **fiscal policy**, which is related to taxation, government spending and borrowing. Although, basic instruments of monetary policy of any country deals with short-term interest rates maintaining bank reserves, however, initially, for many centuries, monetary policy was associated with two types of decision makings, i.e., decisions about coinage and decisions about paper money for creating the credit. Earlier monetary policy was deemed as an executive decision of someone in authority with seignior age, or the power to coin. Larger trading networks enabled the ability of monetary authorities to set the prices between gold and silver, as well as between local and foreign currencies, which could be enforced by law.

2.17. Monetization

Monetization refers to a **process of converting or establishing something into legal tender** and through it usually denotes coining of currency or the printing of banknotes by central banks. Monetization also covers the promissory currency. Monetization of is also described as a process through which a well organized system of exchange in an economy based on the use of money is established. In monetized system money play the role of medium of smooth financial transactions, i.e., payment for goods and services. It can be seen as a process through which an economy is transformed from a barter system and with subsistence sectors to an economy based on monetary exchange sector by replacing barter exchange with monetary exchange. In other words monetization, as a process, can be understood as a conversion of barter based economy in to a monetary economy through expansion of money supply. Although the term ‘monetization’ may also informally refers to some other processes, however, this paper concerned about the above mentioned and the most common meaning of the same.

2.18. Legal Tender

Modern economies are based on **fiat currencies** in which governments declare any form of currency as the legal tender. After any currency declared as the legal tender then it is used as a medium of payment recognized by the legal system to be valid for meeting any financial obligation. Paper currency, coins are the common forms of legal tender in most of the countries, however, they are variously defined in different jurisdictions. Personal cheques, credit cards and similar non-cash methods of payment are usually not legal tenders, as laws, in most countries, do not relieve the debt obligations until the payment is tendered. Commonly, coins and banknotes are usually defined as the legal tender and in many

jurisdictions payments made by means other than by legal tender are restricted, e.g., payment by foreign coins or banknotes, etc.

2.18.1. Demonetisation

Coins and banknotes may cease to be legal tender if new notes of the same currency replace them or if a new currency is introduced replacing the former one or if government declares any particular banknote or coin to not remain as the legal tender. For example, India demonetized its 500 and 1000 rupee notes, on 8th October 2016, which caused the 86% of all cash in circulation to be seized as legal tender.

2.19. Supply of and Demand for Money

2.19.1. Supply for Money

Money supply denotes the sum of the total amount of money in an economy. Commonly the money supply consists of currency and demand deposits. However, alternative definitions of money supply have been adopted by many writers, e.g., the Chicago School led by Milton Friedman opts to include all bank deposits, time and demand, in money supply. In fact, Schwartz and Friedman were willing to consider as money all marketable government securities which were supported at par. By the same logic, there is no reason why the liabilities of saving institutions should not also be included in money.

However, since 1977 RBI is publishing data on four alternative measures of money supply denoted by M_1 , M_2 , M_3 and M_4 as follows:

$$M \text{ or } M_1 = C + DD + OD$$

$$M_2 = M_1 + \text{Savings deposits with post office saving banks}$$

$$(\text{AMR}) M_3 = M_1 + \text{net time deposits of banks}$$

$$M_4 = M_3 + \text{total deposits with post office saving banks.}$$

Where, C stands for currency held by public; DD, net demand deposits of banks; OD implies other deposits of the RBI. Currency includes paper currency and coins, which is notes issued by the RBI and one rupee and other small coins issued by the Government of India. Net demand deposits include deposits held by public and not inter-bank deposits—deposits held by one bank for another. These are not held by public hence excluded. Other deposits (OD) of the RBI are its deposits other than those held by the government (Central and State Governments), banks, and a few others. These other deposits constitute very small proportion (less than one per cent) of the total money supply, hence could be ignored. Each definition of

money supply from M_1 to M_4 has its adherents; but by and large most economists prefer the most common sense and most acceptable definition of money or money supply, that is, M_1 —because it includes everything that is generally acceptable as a means of payment but no more. Once you go beyond currency and demand deposits, it is hard to find a logical place to stop, since many things (bonds, stocks, debt instruments) contain liquidity in varying degree. It is better, therefore, to stick to M_1 definition of money supply including currency plus all demand deposits.

High Powered Money and Measurement of Money Supply

It should be noted that money supply is not always policy determined. In fact, money supply is determined jointly by monetary authority, banks and the public. However, it is true that the role of monetary authority is predominant in determining the supply of money. With the view of money supply two types of money must be distinguished;

(i) **Ordinary money (M):** Ordinary money (M) as we have known is currency plus demand deposits: $M = C + dd$.

(ii) **High powered money (H):** On the other hand, high powered money (H) is the money produced by the RBI and the government of India (small coins including one rupee notes) held by the public and banks. **The RBI calls it H ‘reserve money’. H is the sum of:**

- Currency held by public (c);
- Cash reserves of the banks (R) ; and
- Other deposits of RBI (OD), we can ignore item (iii) from theoretical discussion as it hardly constitutes one per cent of total H. Hence, $H = C + R$. Now, if we compare the two equations of two types of money ordinary money ($M = C + dd$) and high powered money ($H = C + R$), we find C is common to both ; the difference between the two M and H is due to dd in M and R in H. This difference is of vital importance. Banks are producers of demand deposits (DD) and these demand deposits are treated as money at par with currency (C).

But to be able to create (or produce) DD; banks have to maintain R, which in turn, is a part of H, produced only by monetary authority and not by banks. We know in a fractional reserve banking system, DD are a certain multiple of R, which are a component of H; it gives H the quality of high powered-ness (high powered money as compared to M)—the power of serving as the base for multiple creation of dd. That is why; H is also called “base money”. H

thus becomes the single most dominant factor of determining money supply—called H theory of money supply’—also called money-multiplier theory of money supply.

The actual measurement of money in the modern economy has become an extremely complex matter because a fairly large variety of financial assets exist in the economy that serves as money in one way or another. Before the growth of a large variety of ‘near monies’, the circulating media (ordinary money M) could be described adequately by the term ‘deposit money’ or ‘deposits’, since a good part of the ordinary money (M) that actually circulated in the economy consisted of demand deposits in ‘nations’ commercial banks. But it is too restricted now on account of the growth of new varieties of near monies.

Monetary Base which is also called central bank money—consists of all reserves of financial institutions on deposit with the central banks and all currency in actual circulation or in the vaults of commercial banks. This central bank or base money which is also called ‘high powered money’ is the primary means through which the central bank can influence the total money supply in the economy.

It is also called **High Powered** because every unit (rupee) of central bank money provides a support base for several units (rupees) of money in actual circle. The monetary base is important because changes in it have the power to produce multiple changes circulating money. The size of the monetary base in turn changes or fluctuates with changes in asset and liabilities of the central bank.

Thus, what the central bank has under its control is the size of money base (central bank money)—Whether or not changes in the monetary base actually lead changes in money in circulation depends upon how the public (including banks and other finance institutions) react to such a change. It is for public to decide whether or not to change its holdings currency, deposits and financial assets that serve as money in response to change in monetary base. Hence, the link between monetary base and the total money in circulation is a real one; though it is not an exact and mechanical one.

2.19.2. Demand for Money

The term demand for money has been interpreted in two different senses depending upon the two different views held with regard to the nature and function of money, namely:

- Money is a medium of exchange; and
- Money is store of value.

Accordingly, there are two different concepts of the demand for money:

- Medium of exchange concept of demand for money, and
- Store of value concept of the demand for money.

The former is the classical view of the demand for money, while the latter represents the modern view of the demand for money. The term ‘demand for money’ denotes the money balances that a community wants to hold under the given conditions.

2.20. Classical Theories of Demand for Money

Demand for money, in view of the classical economists, e.g., J.S Mill and Irving Fisher, depends primarily on the volume of the transactions in the economy, which in turns is based on the level of national income or GDP. According to classical economists the demand for money was taken to be stable for transaction purposes as they assumed existence of full employment and therefore no change in the level of income and output in the short period of time and thus the volume of transaction was also assumed to be unchanged. This assumption and related classical theory for demand and money are influenced by the Fisher’s Cash Transaction Approach along with the Cash Balance Approach of Cambridge School of economists.

2.20.1. Fisher’s Cash Transaction Approach

Fisher established by the following equation that demands for the money is determined by the level transaction (sales and purchases) and the average velocity circulation of the money.

$$MV=PT$$

If M is taken as demand for money i.e, M_d then

$$M_d= PT/V$$

Where P is the price level, T is the volume of trade (or number of transactions and V is the velocity of circulation of money. Since the velocity of money is assumed to be constant, the demand for money depends upon the money value of transactions. In this theory, supply of money M_s is also equal to PT/V . therefore the demand for money M_d is always equal to supply of money M_s .

2.20.2. Cambridge School's Cash Balance Approach

Similarly, the Cambridge version of theory of demand for money emphasizes the 'store of value' function of money, which believes that money is one of the alternatives assets in which people can hold their wealth. Accordingly, the people or the communities are believed to hold a fraction of their income in the form of 'real balances', which are measured in terms of unit of purchasing power. In other word, the term 'real balances' stands for nominal money balances of the community which it wants to hold in cash and it is denoted by the latter k, the real income of the community by Y and the price level by p, then according to the Cambridge approach the equation for the demand for money,

$$M_d = kPY = kPT$$

It shows us clearly that an increase in the demand for money means smaller demand for goods and services as people can hold longer cash balance only by cutting down their expenditure on goods and services. Conversely, it can also be understood that a fall in demand for money means larger demand for goods and services on the part of people.

2.20.3. The Keynesian Approach to Demand for Money

Keynes further explicated the Cambridge economists' concept of holding certain proportion (k) of real resources in the form of money by people and community by adding that people want to hold money as it is the most liquid of all assets. Liquidity is the quality of asset which enabled it to be convertible in other assets, in short period of time. It is possible to buy anything using an asset which is liquid and as money is the most liquid asset one can use it readily in any transaction. Other assets are not as readily convertible as money, e.g., if we hold a financial asset like bond, then we have first to sell the bond and then acquire money to buy anything else. Thus liquidity confers a convenience on its holder and therefore people prefer to hold some money with them, especially to use it at anytime of urgency. But the disadvantage with money is that it does not yield any interest income which other financial assets yield. However, these other assets which have a positive point that they yield income also have negative point that they entail the risk of capital gains or losses. Further, while money has virtually no carrying cost (cost of maintaining the assets), the securities may have some though small carrying cost, while the commodities do have a substantial carrying cost such as cost of storage etc. Thus the wealth holder has to balance the convenience of holding all his wealth in the form of money with the gain that he has to forego by not holding others assets.

Liquidity Preferences: How much cash a person would like to hold depend upon his liquidity preference, i.e; preference for money vis-à-vis other assets. The extent of his preferences for money or liquidity preference, the degree of liquidity preference, Keynes further point out, depend upon the motives for which people want to hold cash. There are three such motives:

- (1) The transaction motives;
- (2) The precautionary motive;
- (3) The speculative motive.

Transaction Motives: The transaction motive relates to the need for cash for current transactions. People like to hold some cash to be able to meet their expenses in the interval between the receipt of income and the time when it is spent. This amount will primarily depend upon the level of income and business activity.

Precautionary Motives: The precautionary motives involve the desire to have available for unforeseen contingencies certain proportion of the total resources in the form of cash. People also hold some cash to meet unexpected contingencies.

Speculative Motives: The speculative motive relates to the desire to hold one's resources in liquid form in order to take advantage of market movements. There are wide fluctuations in the demand for money for speculative purposes. In fact the amount of money desired for speculative purposes is primarily a function of the rate of interest. Thus an expected rise in interest will stimulate liquidity preferences and an expected fall has the opposite effects.

2.20.4. Tobin's Theory of Demand of Money

James Tobin, an American economist, explained that rational behavior on the part of the individuals is that they should keep a mixed portfolio of assets which consist of both bonds and money. He made a valid assumption through his analysis that people prefer more wealth to less. The starting point of Tobin's analysis of **speculative demand** for money is that one does not find individual wealth holders owning either nothing but money or nothing but bonds. Rather, people hold diversified portfolios or mixture of assets i.e; money and bonds. In other words, an investor is faced with a problem of what proportion of his portfolio of financial assets he should keep in the form of money (which earns no interest) and interest-bearing bonds. The portfolio of individuals may also consist of more risky assets such as shares. Holding more bonds would yield him income that would increase his wealth in the next period. However there is chance of capital gain or loss on bonds as their market price is

subjected to fluctuations. Thus more bonds a person has his portfolio whose prices can fluctuate, the greater is the risk of capital gain or losses. Risk reduces the utility from bonds and therefore, introduction of extra bonds in the portfolio involves trading off extra expected wealth in the next period against extra risk. The problem before the wealth holder is to get the maximum amount of utility out of his portfolio, given the rate of interest and given the rate of riskiness attached to holding of bonds.

According to Tobin, individual's behaviour shows risk aversion. That is, they prefer less risk to more risk at a given rate of return. The riskiness of bonds has an effect that is similar to the lower rate of interest as it increases the quantity of money demanded. Similarly, a decrease in riskiness has an effect equivalent to that of a higher rate of interest, as both reduce the demand for money. In the Keynes' analysis an individual holds his wealth in either all money or all bonds depending upon his estimate of the future rate of interest. But, according to Tobin, individuals are uncertain about future rate of interest. If a wealth holder chooses to hold a greater proportion of risky assets such as bonds in his portfolio, he will be earning a high average return but will bear a higher degree of risk. Tobin argues that a risk averter will not opt for such a portfolio with all risky bonds or a greater proportion of them.

2.20.5. Baumol's Inventory Approach to Transactions Demand for Money

Prof. W. Baumol put forward a new approach to explain the transaction demand for money instead of Keynes's speculative demand for money. He explained the transaction demand for money with a viewpoint of the inventory control or inventory management of goods and materials as maintained by a business firm. Baumol asserted that individuals hold the inventory of money similar to a firm as it facilitates the transactions of goods and services. Individuals have to keep the optimum inventory of money for the transaction purposes similar to a firm which keeps optimal inventory of goods to reduce cost. However, they incur cost on these inventories as they have to relinquish interest which they could have earned had they kept their wealth in saving or fixed deposits or invested in bonds. And thus this interest income which was relinquished is the cost of holding money for transaction purposes and that is why Baumol and Tobin emphasised that transaction demand for money is not independent of the rate of interest.

2.21. The Velocity of Circulation of Money

The velocity of money is the rate at which money is exchanged from one transaction to another and how much a unit of currency is used in a given period of time. Velocity of money

is usually measured as a ratio of GNP to a country's total supply of money. The movement of money from person to person for payment of goods and services determines the flow of money. Stock, as described earlier, is money supply at a point of time, but flow of money is represented by the changes in money over a period of time. These changes occur due to movement of money available through transactions. For example, A buys stationery from X for Rs. 100/- he exchange goods for the money. X uses Rs. 100/- to buy a tie for himself from R. R uses the same 100/- to buy ration from Z and Z deposits this money in to his saving account. This movement of money from A to X, X to R, R to Z is money circulation. This circulation may take place in 15 days. If all these transactions take place as early as in 15 days, the velocity of money is very high. It means that four transactions take place in two weeks, eight in one month and 96 in one year. If we want to find out the flow position of money in one year in an economy, then the supply of money is MV , where M stands for money in circulation (Rs.100/-here) and V is the number of times in circulation. Then, $MV=8*12=96*100=9600$ which is the money supply. If the transactions of Rs. 100/- move from X Y Z and back in six months, then the total money supply- MV or $Rs. 100*2*4=Rs.800/-$. When velocity of circulation is in a shorter time period, money supply flow will be greater. (Kumar, Mittal, 2002).

2.22. Velocity of Money during Demonetisation

In mathematical terms, velocity of money is the ratio between GDP and money in circulation which RBI estimates to be around 1.3 for India. However by 'money', it does not mean the cash that we exchange in day-to-day transactions (part of something called high powered money or $M0$). Instead it is broad money (also known as $M3$) where you also include bank deposits, post office savings and other bits and pieces of financial savings.

$M3$ and $M0$ in India are linked by a factor of 6—so roughly speaking, $R1$ of cash in circulation, ultimately adds up to $R6$ worth of broad money. So, if velocity of money calculated using broad money is 1.3, then it equates to six-times the amount, or 7.8 with respect to cash in circulation. So we now have a measure of how quickly transactional cash changes hands in the legitimate Indian economy.

A Single Note of Rs. 1000 is worth Rs. 10,00,000/- if it passes through 1000 citizens across the country in a year and is worth only Rs. 1000 if it is kept idle in a locker. This is called the Velocity of money. As the Velocity of money through banking channels increases, so will the

tax collections from the said money. All the taxes which were earlier evaded by keeping the trail out of the economy will now be recovered. And because money keeps travelling, taxes will be collected at each stage, thus giving a ripple effect to one act.

Velocity of money” is a term used to denote the number of times a unit of money in an economy changes hands during a certain period. By ‘money’, it does not mean the cash that we exchange in day-to-day transactions. Instead it is broad money where you also include bank deposits, post office savings and other bits and pieces of financial savings.

It is true that the economy may surely be benefited if the “Velocity of Money” increases and theoretically the move of Demonetisation and move towards cashless economy should help to increase the Velocity of Money. Mathematically, Velocity of money is a derived statistics which can be arrived by dividing the value of GDP with the value of money in circulation. As an analogy, the sudden lowering of GDP due to Demonetisation can be offset if simultaneously we can increase the velocity of money.

2.23. Conclusion

Money has played important role in development of commercial activities and institutions all across the world. In course of time it took several forms, however, its basic functions remained the same, i.e., providing a medium of exchange, standard of value and a store of value. From ancient time till eighteenth century various forms of money can be linked to ‘commodity money’ type which carries the real value equal to its face value. However, fiat money, i.e., money/currency based on government fiat or declaration as legal tender, replaced the commodity money in modern time. Economic development and monetary system has been closely linked with each other. Modern nations of the world were linked with the gold standard during seventeenth and eighteenth centuries, the time when economic thinker’s and governments replaced monopolistic approach and adopted the free trade related ideas of Adam Smith’s and his followers, which believed that there should be no control of governments in economic decision making. Entire world followed this principal for around one hundred and fifty years till the great depression knocked the doors of advanced nations. John Maynard Keyes provided the solution and proposed for increasing the aggregate demand by reducing the interest rates with government spending on infrastructure. Based on his principals a new international monetary framework was created at Bretton Wood, during post World War II period (1944) where institutions like IMF and World Banks were established.

Demand for money, in view of the classical economists, e.g., J.S Mill and Irving Fisher, depends primarily on the volume of the transactions in the economy, which in turns is based on the level of national income or GDP. This assumption and related classical theory for demand and money are influenced by the Fisher's Cash Transaction Approach along with the Cash Balance Approach of Cambridge School of economists. On the other hand, Keynes stressed that people demand money with transaction, precautionary and speculative motives. However, James Tobin, an American economist, explained that rational behavior on the part of the individuals is that they should keep a mixed portfolio of assets which consist of both bonds and money. According to Tobin, individual's behaviour shows risk aversion. That is, they prefer less risk to more risk at a given rate of return. The riskiness of bonds has an effect that is similar to the lower rate of interest as it increase the quantity of money demanded. Similarly, Prof. W. Baumol put forward a new approach to explain the transaction demand for money instead of Keynes's speculative demand for money. He explained the transaction demand for money with a viewpoint of the inventory control or inventory management of goods and materials as maintained by a business firm. Baumol asserted that individuals hold the inventory of money similar to a firm as it facilities the transactions of goods and services. However the rate of money supply can be understood by the velocity of circulation of money related concept. The movement of money from person to person for payment of goods and services determines the flow of money. Stock, as described earlier, is money supply at a point of time, but flow of money is represented by the changes in money over a period of time. These changes occur due to movement of money available through transactions.

Chapter-III

Short Term Economic Impact of Recent Demonetisation on Production, Employment, Inflation and Digitalization

3.0. An Overview

World Bank's report for 2015-16 showed that, with a 7.6% growth rate, India was at the top of list of countries with growth outlook. Basic reasons behind the high growth rate on Indian economy included demographic dividend, low dependency ratio, health savings, high investment rates and increasing integration with the global economy. It seemed that everything was going well until the **sudden announcement of Demonetisation of the Rs.1000 and Rs.500 notes on November 08, 2016 which sent tremors all across the country and put the socio economic lives of people on hold for many days.** The government's stated objectives behind the Demonetisation policy were as follows; first, it was an attempt to make India corruption free. Secondly, it was done to curb black money, third to control escalating price rise, fourth to stop funds flow to illegal activity, fifth to make people accountable for every rupee they possess and pay income tax return. Finally, it was an attempt to make a cashless society and create a Digital India. **Although, it was anticipated that this move would have some immediate negative effects on economy and the GDP; however, there were different speculations about the percentage of dip in growth.** HSBC guessed it would be a decrease of 1% in GDP growth; Manmohan Singh calculated 2%-- either being entirely believable. Nevertheless, a survey report of RBI claimed;

“Demonetisation announced on November 8, 2016 was aimed at addressing corruption, black money, counterfeit currency and terror financing. Although demonetisation holds huge potential benefits in the medium to long-term, given the scale of operation, it was expected to because transient disruption in economic activity. The analysis in this paper suggests that demonetisation has impacted various sectors of the economy in varying degrees; however, in the affected sectors, the adverse impact was transient and felt mainly in November and December 2016. The impact moderated significantly in January 2017 and dissipated by and large by mid-February, reflecting the fast pace of remonetisation. The latest CSO estimates suggest that the impact of demonetisation on GVA growth was modest. Currency squeeze due to demonetisation along with seasonal factors pushed food inflation significantly down but has not had much impact on inflation excluding food and fuel.” (RBI Survey Report)

However, there were many who calculated that the impact would be much bigger than this. Ambit Capital thought 6 or 7%, pushing growth into negative territory which was perhaps a bit too gloomy. The timing of the announcement and delays in recalibration of the ATMs for new notes gave reasons for many to term it a ‘financial emergency’. Again, given the high proportion of these notes in circulation (over 86%), ‘Demonetisation’ led to most economic activities, particularly employment, affected in a big way. Discussions and debates are still going on in various quarters of economy and society about the nature and various forms of disruptions caused due to Demonetisation in the economy. In this context, it would be helpful to understand the role of currency in transactions and economy before getting into this debate. However, a snapshot of the current status of Indian economy would further enrich the discussion.

3.1. Nature and Current status of Indian Economy

Indian economy has been transformed during last two decades. Especially the rise of services sector and declining role of the agriculture in the GDP has been significant in placing India among the fastest growing economies of the world. India has one of the world’s fastest services sectors with annual growth rate over 9% since 2001 and most importantly it’s share in the economy is around 57% of GDP (as per 2012-13 data). India a major player in words IT services export, BPO services, and software development services and during financial year 2017 the total revenue generated by these three services subsectors was \$154 billion. This is the face of emerging Indian economy in which IT and software services are the fastest growing components and largest private-sector employer in the country. Indian industry sector is also a major contributor in the GDP (26% of GDP in 2013-14) similarly; Indian automobile industry is one of the biggest in the world which produced 21.48 million vehicles (mostly two wheelers and three wheelers) in 2013-14. Retail (\$600 billion in 2015) and e-commerce market is also rapidly developing in India and transforming the nature of the economy.

However on the other hand, the agriculture sector which is still the largest employer in Indian economy has a decreasing share in the GDP of the country and as per the record of 2013-14 its contribution to the GDP was just 17%. Agriculture is still important as over 58% rural households depend directly on it as their primary means of livelihood. Decreasing share in GDP should not be misunderstood with shrinking in the size of the sector as there has been a continuous growth in agriculture sector too and about 50% of the workforce still engaged in agriculture and allied sector. It can be said that although Indian economy is rapidly

transforming from rural to urban, farm to non farm activities, unorganized to organized sector and semi skilled/non skilled to skilled workforce the major characteristics of the economy is still farm based rural in nature with dominant role of unorganized/informal sector in cities. Therefore, little understanding about informal sector would help understanding the bigger picture regarding the impact, especially the short term impact of Demonetisation.

3.2. Informal sector or Unorganized Sector

One of the major characteristics of the Indian economy lays in the fact that the unorganized sector is a pivotal part of it and according to an estimate 90% of the national product is accounted for by the informal or unorganized sector. Another interesting thing which attaches due significance to informal sector is that a high proportion of socially and economically under privileged groups and vulnerable communities finds their livelihood in it. This sector is also a source of livelihood for women as it employs more women than men, especially in developing countries like India. More than 400 million people (85% of total workforce of the country) are engaged in informal sector and various rounds of NSS surveys shows increased persons of female workers over male workers engaged in the informal sector in India. Informal sector is largely depended upon the cash based transactions; therefore, next section would deal with role of cash in the economy.

3.3. Understanding the Role of Cash in

For an in-depth understanding of the effect of Demonetisation, it would be important to first have a clear understanding of the role of cash and types of transactions in any economy. We can broadly divide economic transactions in four categories, i.e., accounted transactions, unaccounted transactions, transactions in informal sector and illegal transactions. First two categories are linked with the transactions & corresponding incomes being reported or not reported to tax authorities. The third category which is associated with informal sector is largely consisted of agents who earn incomes in cash below the exemption level without any tax liabilities. A fourth type is of accounted transactions. Table one summarizes these categories.

Table 3.1: Demand for Cash by various agents in the economy

sl. No.	Types of transactions	Medium of exchange	Store of value
1	Unaccounted transactions (legitimate transactions but not tax paid)	Incomes are earned through exchanges in cash, payments are made in cash	Balances held in the interim until alternative investment options become available (there exist a number of instruments which yield better return than cash – real estate, lending in the unaccounted or informal sector, and so on.)
2	Illegal transactions (corruption, crime, etc.)	Payments for crime	Balances held in the interim until alternative investment options become available (there exist a number of instruments which yield better return than cash – real estate, lending in the unaccounted or informal sector, and so on.)
3	Informal sector transactions	Incomes are earned in cash and spent in cash	Savings as well as precautionary purposes (as yet unbanked in the psychological sense)
4	Accounted transactions	Transaction demand for money	For emergencies (precautionary demand for money)

Source: Demonetisation: Impact on the Economy, National Institute of Public Finance and Policy, New Delhi

It would be easier to understand the effect of Demonetisation of the extinguishing of the currency in an economy with the help of above table. It is being assumed that the currency used as a store of value and transactions of first two categories would be extinguished and thus the impact of Demonetisation would be limited and beneficial. However, if the currency is used for the other types of transactions, either as a store of value or, more importantly, as a medium of exchange, then the impact on the economy and the agents in it would be greater. For example if the demonetized currency was used as a medium of exchange in financing the unaccounted income or transactions in the informal or unorganized sector then

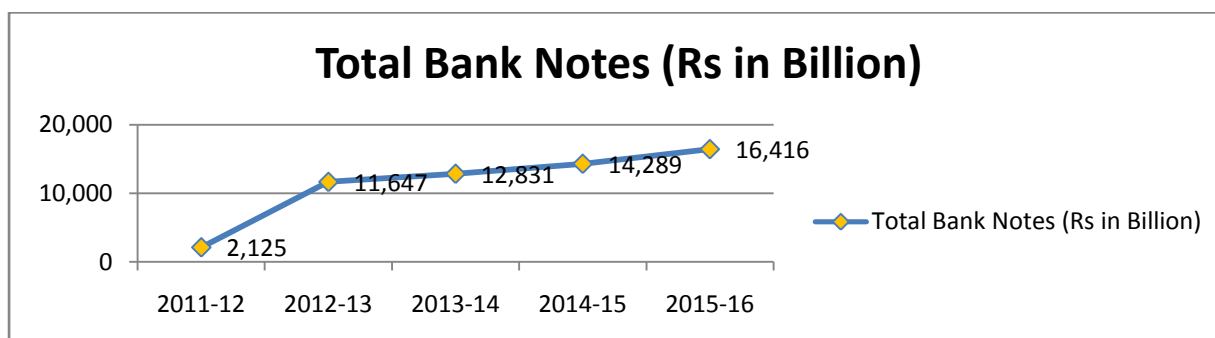
Demonetisation would cause closing down these activities with respective reduction in the incomes and employment associated with them. The impact would also be felt on formal sector or organized sector since the consumption of income generated in informal sector would extent to the formal sector as well.

Table 3.2: - Total Bank Notes and % of GDP

GDP 2004-05 series	Total Bank Notes (Rs in Billion)	GDP (Rs in Billion)	Total Bank Notes As % of GDP
2011-12	2,125	87,360	12.1
2012-13	11,647	99,513	11.7
2013-14	12,831	112,728	11.4
2014-15	14,289	124,882	11.4
2015-16	16,416	135,761	12.1

Source: - Based on data extracted from RBI (2016a), Handbook of Statistics on Indian Economy 2015-16

Figure 3.1 Total Bank Notes (in Billion)



Source: - Based on data extracted from RBI(2016a), Handbook of Statistics on Indian Economy 2015-16

3.4. Stated Objectives, Criticism and Support of Demonetisation

3.4.1. Stated Objectives

Announcement of Demonetisation on 8th November 2016 was followed by a press conference by Mr. Urjit Patel, Governor of RBI and secretary of economic affairs Mr. Shaktikanta Das in which following reasons were stated as the objectives of and reasons behind the step.

- One of the most important purposes of the Demonetisation as stated in the press conference and later on mentioned in the press releases of the department of economic

affairs was to fight the terrorism funded by the counterfeit currency. It was quoted during the press conference that while the supply of notes of all denominating had increased by 40% between 2011 and 2016 the Rs.500 and Rs.1000 banknotes were increased by 76% and 209%, respectively. This clearly indicated towards the existence of a parallel industry of counterfeit currency which is according to press conference are the 'forged cash' used to fund terrorist activities against India and in this respect the Demonetisation had a counter-terrorism purpose.

- Second important purpose of the step was to hit the black money stored in high denomination notes and to address the issues of corruption at various levels.

3.4.2. Reactions of Experts, Institutions and Prominent people

Many prominent institutions and people expressed their dissatisfaction about Demonetisation. Supreme Court commented, "*Discontinuation of higher denomination notes appears to be carpet bombing and not surgical strike.*" Supreme Court went further to warn that there 'may be riots' because of the serious situation that was prevailing in the country. Similarly, a fifteen member Parliament Committee felt that because of Demonetisation, "honest, hardworking and taxpaying citizens of India were made to suffer." According to the committee the rural households and honest taxpayers were the worst victim of this step. This committee observed that this step (Demonetisation) created a significant disruption in the economy as it was carried out hastily without any prior research. Many prominent economists and experts expressed their opinion against the Demonetisation. Nobel laureate Amartya Sen said, "*It's (demonetisation) a disaster on the economy of trust. In the last 20 years, the country has been growing very fast. But it is all based on acceptance of each other's word. By taking despotic action and saying we had promised but won't fulfil our promise, you hit at the root of this.*" Kaushik Basu felt that *Demonetisation related economics is quite complex and the collateral damage may outstrip the benefits.*

However, there were many other experts, prominent people and institutions that came forward in open support of the government step of Demonetisation. Finance Minister Arun Jaitley expressed that Demonetisation would clean the complete economic system and significantly increase the size of economy and revenue base. According to him, the Demonetisation along with the GST (Goods and Services Tax) can be seen as "an attempt to change the spending habit and life style." Major supports for Demonetisation came from the

bankers' and industry leaders. "We will strive to restock ATMs at the earliest and make them operational. The Government has given enough exemptions to ensure urgent needs are met. We will work round the clock to ensure that customers have a smooth experience," State Bank of India Chairperson Arundhati Bhattacharya said. HDFC chairman Mr. Deepak Parekh expressed, "It is a big reform which no one expected and will have a huge impact on people who are hoarding money and not disclosing money for tax purposes." ICICI Bank chief Chanda Kochhar noted, "it's perhaps the most significant move ever taken to curtail the parallel economy. It will give a sharp boost to all formal channels of payments which in turn will help the formal economy to grow at a faster clip in the long term."

3.5. Anticipated Impact of Demonetisation

Government and Reserve Bank of India have already anticipated that some negative impacts might be felt on economy for shorter duration which will disappear in course of time, paving the way for long term benefits. Following table (2) enlisted these anticipated (short term) impact on the economy;

Table 3.3 :- Anticipated impact of Demonetisation		
Key Indicators/issues	Short term Impact	Long term Impact
GDP growth	To be negatively impacted by 0.5-1% due to drop in consumption GDP. GDP formation will be effected with the reduction in consumption demand. Consumption ↓→ Production ↓→ Employment ↓→ Growth ↓→ Tax revenue ↓	GDP GROWTH with a tax net widening after restriction on cash economy, GDP in the long-term likely to get a boost. Government revenue will boost up as more earnings would be declared. The unbanked people will move to banking like Jan-dhan contributing towards government's efforts of financial inclusion.
Inflation	likely to come down due to low demand owing to liquidity problem	Inflation since effect of lower demand can have a lagging impact on inflation, prices may

		remain flat or fall in the long term
Interest rate	with Banks flush with cash, interest rates may come down in the short-term	If demonetisation boots formal banking and more cash continues to come in the system, interest rates may fall further.
G-sec Yield	likely to fall as liquidity in the banking system means interest rates are likely to fall	Likely to remain flat to positive depending on how inflation plays out and how's the country's fiscal situation.
Fiscal Deficit	Unlikely to have much impact as most of the gains (RBI surplus, higher tax collections, penalties) will accrue after FY2017. Unlikely	With likely increase in the size of formal economy, tax collections would improve improving the country's fiscal situation.
Impact on agriculture and informal sector	Certain sections of the society namely agriculture sector, small traders, households, SME's, daily wage earners etc. will face short term disruptions due to absence of liquid cash.	Long term impact would be beneficial as more and more unorganized laborer would join organized sector with effective skill building and growth.
Property and real state	Downfall in the rates of property& real estate	Beneficial for sustainable growth of real estate and property.
Infrastructure	No noticeable impact	Collection of higher taxes will help in nation building like development of roads, infrastructure, transportation

		and many others.
Corruption	Reduction	Effective control on corruption possible
Black money holders in cash	Would be surprised and shocked	Along with GST there would be effective control on generation on black money
Digitization and e-commerce	May increase	Sustainable increase in e-commerce and digitization of the economy.
Naxalism and terrorism	May go down	Effective financial control on funding sources of coercive activities against country might be possible.

3.6. Actual Short Term Impact of Demonetisation

One of the most visible impacts of Demonetisation can be seen in the deaths of people standing in long queues for cash. By the end of 2016 over 100 people had died reportedly due to Demonetisation. This included suicide of farmers in the wake of Demonetisation, deaths from standing in queues for hours to exchange their old banknotes and due to lack of timely medical support due to refusal of old banknotes by hospitals. Other short term impacts are discussed below;

3.6.1. Impact on Economy

Understanding the shock created by Demonetisation on the economy should be understood in following three terms;

- A shock in aggregate demand as the supply of money is reduced which further affects the private wealth (especially in context of those who hoard black money)
- A shock in aggregate supply of cash which is necessary input for the economic activities, e.g., if agricultural producers may require cash to pay labor, etc.
- Another uncertainty related psychological shock as economic agents face difficulties due to above mentioned shocks

- i. For the purpose of assessment of the Demonetisation at Macro level following five areas would be focused;
- ii. Agricultural showing (rabi crops)
- iii. Impact on the indirect tax savings as the broad gauge of the production and sales
- iv. Auto sales, generally as the measure of discretionally consumer expending, especially the sales of two wheelers as it provides the best available indicators for demand in rural areas or less affluent.
- v. Real estate prices
- vi. Real growth

Performance of the above indicators present a composition in which agricultural sowing, passenger car sales, and overall excise taxes experienced insignificant impact of Demonetisation, whereas sales of two-wheelers reflected a clear decline after Demonetisation. However, November and December in 2016 witnessed sharp decline in indirect tax collection. It was reflected that access to credit was weaker after Demonetisation which included farmers access to inputs-seeds, fertilizers, credit, and labor-was impeded. It was witnessed that pre-existed trends were reinforced after November 8 in these in respect of these indicators, especially in the auto sales.

3.6.2. Impact on Economic Growth Rate

Decline in the indirect tax collection, real estate prices and drop in real credit growth pointed towards a reasonable conclusion that real GDP and economic activities have suffered adversity, but only temporarily, due to Demonetisation. Latest data pointed towards the fact that Indian economy, as expected, experienced a dip in the growth rate after the Demonetisation. However, the October-November data of GDP was revealed in March 2017, which suggested that India retained the title of world's fastest-growing major economy with 7% growth rate. This growth rate was better than 6.4% rate forecasted by many economists. Though many economists and analysts casted doubts on the authenticity of the data. However, it was lower than the growth rate of previous quarter which was 7.4%. Manufacturing sector registered a growth rate of 8.3% during October-December against the 12.8% rate during the same quarter of previous year (2015-16), however, it was better than the 6.9% rate of previous quarter (July-September 2016-17). This dip in the manufacturing sector reflected the poor consumer durables output and sales in the months following the Demonetisation. Factory output of the country which is measured by the index of industrial

production (IIP) was already reflected a by 0.4% from its November (2016) level of 5% indicating the sign of faltering industry activity due to the impact of demonization.

The economy was not fully recovered from the shock created by Demonetisation and another shock created by GST (Goods and Services tax) has sent tremors and caused a sharp decline in the GDP. Even prior to the implementation of GST, the growth rate during the June Quarter of 2017 registered a three year low 5.7% which was poorer than 6.1% of previous quarter. Wide spread slowdown in the economy was reported, especially during the first quarter of after Demonetisation. Private consumption's share in GDP fell to 58.7% in January-March, from 59.1% a year ago, whereas growth in gross fixed capital formation (GFCF) which is a gauge for measuring investment remained almost flat during quarter after Demonetisation. Investment's share in GDP fell to 25.5% in Q 4 from 28.5% a year ago, reflecting a 3% drop from previous year. Furthermore, widespread slowdown was noticed in a range of sectors and subsectors. Growth rate of electricity generation slowed down from 7.2% in 2015-16 to 5% during 2016-17 with 1.7% drop. Similarly, growth in financial sector eased to 5.7% during 2016-17, from 10.8% in the previous year signaling a significant drop. Trade, hotels, transport and communication grew by 7.8% as compared to 10.5% growth during 2015-16. Many economists took this slowdown and the record-low inflation with surprise and questioned the monetary policy of RBI and government. Many suggested that an interest rate cut may bring back the economy on right track. However, finance Minister of GOI, expressed that he is well convinced that this is a temporary phase and the economy will revive and bounce back in due course of time.

Table 3.4:- Trends in Index of Industrial Production- Sectoral

Trend Comparison	Oct, 16	Nov, 16	Dec, 16	Jan, 17	Feb, 17	Mar, 17	Apr, 17	May, 17	Jun, 17	Jul, 17	Aug, 17	Sep, 17	Oct, 17	Nov, 17	Dec, 17
Currency with public	0.8	-46.3	-14.1	16.4	16.6	14.1	9.5	6.3	2.8	1.2	1.4	0.5	3.5	2.1	2.2
Mining	15.2	5.1	7.4	0.3	-3.4	15.6	-22.6	2.9	-3.1	-6.2	6.2	1.9	6.9	6.4	7.5
Manufacturing	0.2	-4.6	4.9	1.4	-2.8	10.9	-11.6	7.1	-4.2	-0.8	4.0	1.2	-1.3	3.3	2.7
Electricity	-0.3	-7.0	2.1	0.8	-6.3	13.6	1.8	5.0	-6.8	3.1	2.3	-3.2	-0.5	-6.5	2.7
General	1.8	-3.7	5.0	1.2	-3.2	11.7	-11.9	6.4	-4.4	-1.1	3.5	0.8	-0.3	2.8	3.3

Primary goods	8.6	-1.8	5.4	-1.1	-5.6	15.0	-12.1	4.7	-4.6	-0.6	1.8	-0.7	4.4	-1.1	5.9
Capital Goods	-4.7	4.7	-1.4	1.5	3.1	32.2	-34.0	12.1	0.1	-3.3	5.4	5.8	-6.6	8.1	4.3
Intermediate Goods	0.9	-3.8	3.6	1.6	-2.6	11.1	10.8	3.1	-2.7	-0.2	2.7	0.	-1.0	2.2	3.4
Infra/Construction Goods	0.1	-8.9	10.6	2.3	-4.7	10.6	-7.7	4.5	-0.5	-4.3	3.0	-2.3	5.1	-1.7	3.6
Consumer Durables	-3.5	-9.5	-1.3	-0.1	-1.1	11.1	-6.6	4.5	-6.0	-0.5	9.5	1.4	-8.0	2.2	-3.5
Consumer non-Durable	-1.5	-1.3	9.0	5.5	-1.4	-0.8	-8.8	14.1	-9.0	0.1	2.4	4.2	-3.7	12.8	2.8

Source: RBI Bulletin and MOSPI, GOI.

Figure 3.2: Trends in Index of Industrial Production- Sectoral

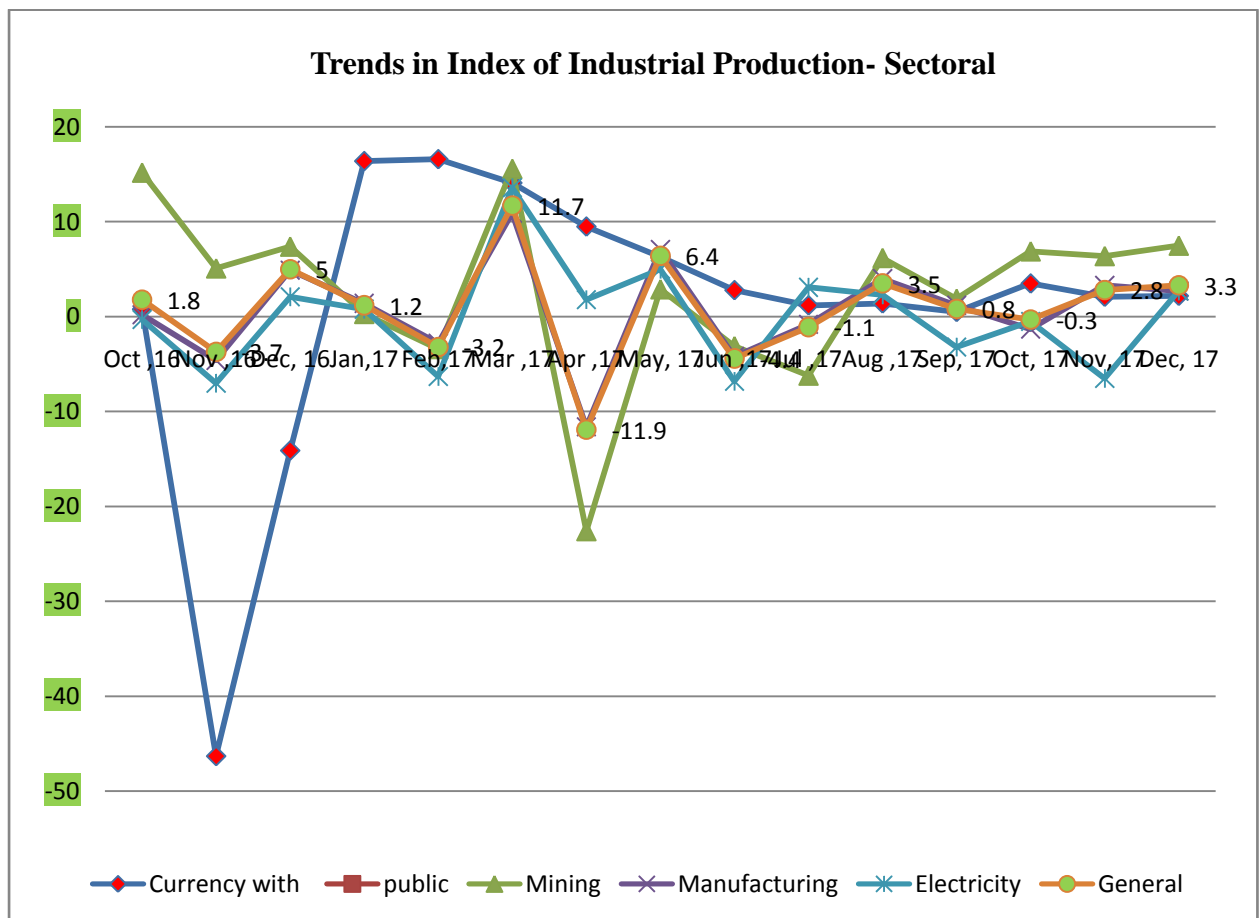


Figure 3.3: Trends in Index of Industrial Production- IIP Used Based

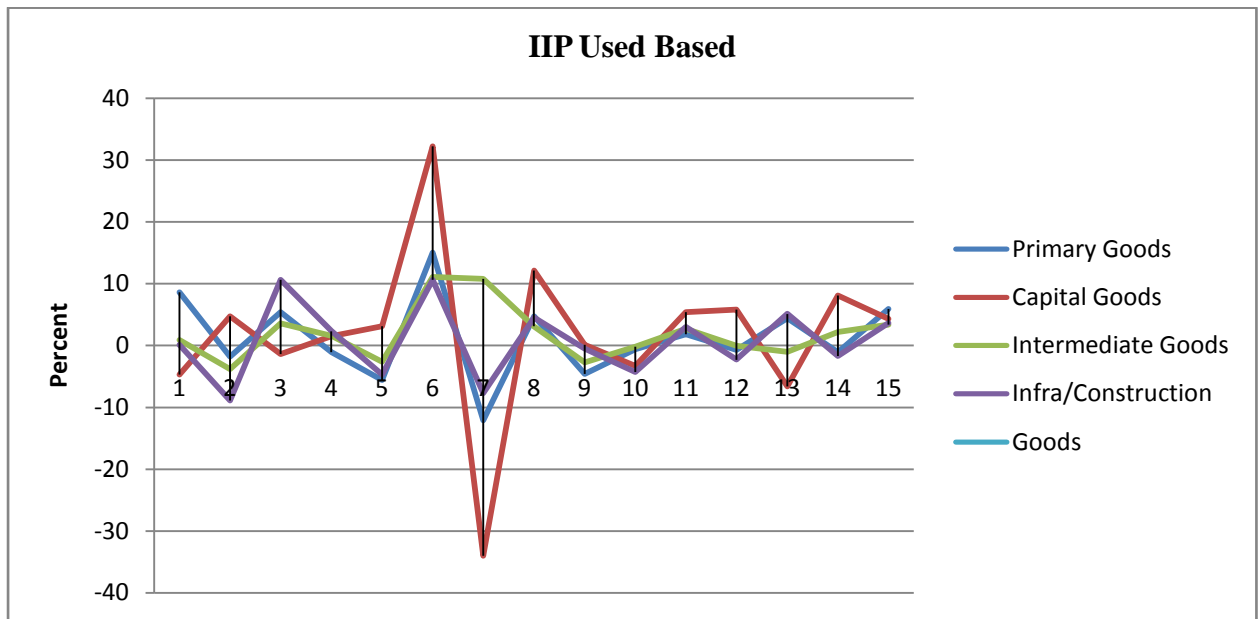
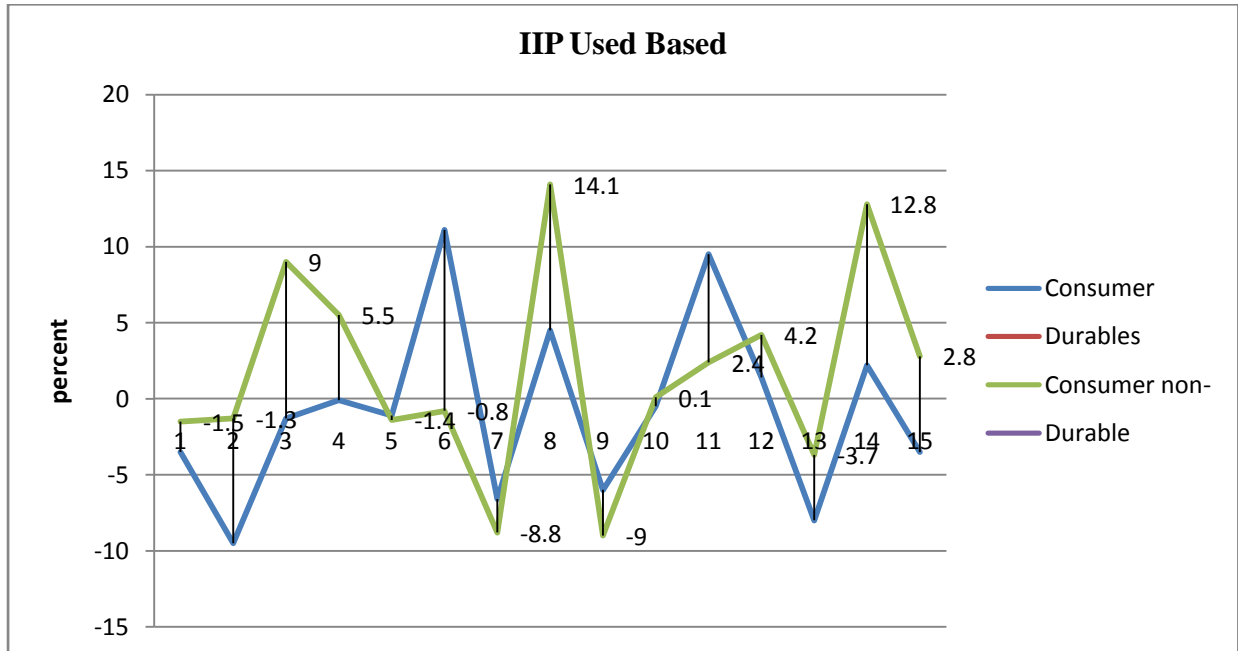


Figure 3.4: Trends in Index of Industrial Production- IIP Used Based



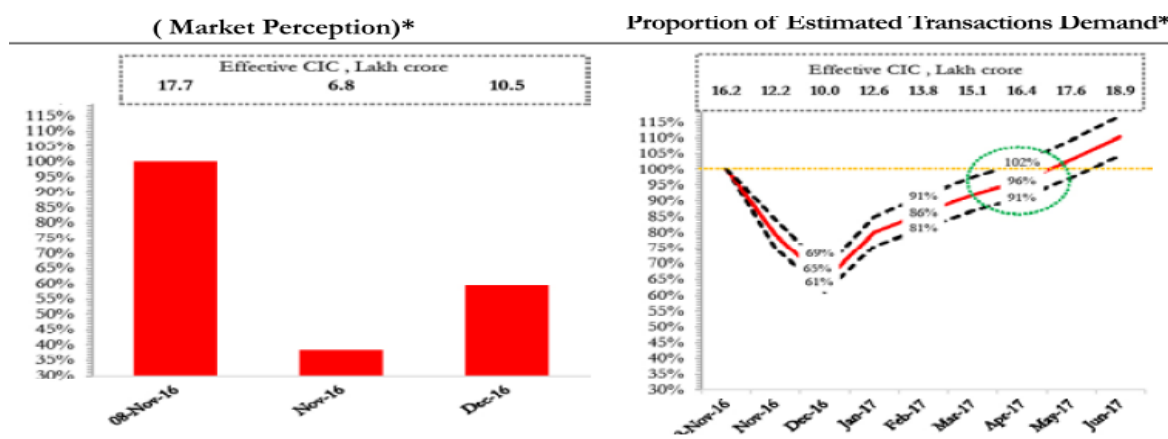
Source: RBI Bulletin and MOSPI, GOI.

3.6.3. Impact on Cash/Money Supply

Assessing the impact of Demonetisation on the supply of cash would be the first step to assess its impact on the GDP. This assessment, especially just after the Demonetisation

announced was not easy as old notes were still in use and the new notes (Rs.2000) were also in liquid and that the cash, old of new, was not returned. However, we can calculate the effective cash supply on the basis of assumptions that 75% of the old notes of Rs 500 and Rs 1000 were still in the transaction and 75% of Rs 2000 notes injected in to market which increased to 85% in December and 100% from January onwards with the introduction of new Rs 500 notes. From end-December onwards such estimates can be much easier as old notes were no longer in the circulation and supply of cash was directly associated with the pace at which the new notes were supplied. These assumptions help us in estimating the cash circulation between November 8, 2016 and the end of April, 2017 (see figure3.5).

Figure 3.5: Difference in the market perception and estimated Effective Currency in Circulation (CIC) after Demonetisation



Source: Survey calculations

*End of the month unless otherwise specified.

The resulting figures for the effective currency in circulate were significantly different than the perception existed in the market based on the headlines number which suggested that the currency decline after November 8, 2016 amounted to 62% by end-November, 2016, and further narrowed to 41% by end-December 2016. However, above estimate clearly suggested that the cash reduction was 25% during end-November 2016 and 35% during end-December in the same year pointing towards the fact that true extent of the cash reduction was significantly smaller than what was commonly perceived. Furthermore, the true peak in reduction in monetary supply was occurred in December as opposed to the psychological shock which was at the peak during November. Therefore, it can be understood that cash supply was dropped however; the decrease was not as sharp as commonly understood.

3.6.4. Impact on Corruption

Counterfeit currency in circulation as estimated by Indian Statistical Institute, Kolkata, was estimated to be around Rs. 400 crore which was 0.28% of the demonetized currency. Demonetisation has completely eliminated these currencies from the system. According to World Bank's estimate India's black money is/was in the range of 21% to 23% of its GDP which could be approximately Rs. 6,800 billion. However, according to the same estimate 70% of the black money/assets worth around Rs. 4,800 billion was parked overseas leaving remaining Rs.2000 billion in the country out of which 5% to 6% are held in cash. New York Times in its editorial wrote, *"There is little evidence that the currency swap has succeeded in combating corruption or that it will forestall future bad behavior once more cash becomes available."* It can be said that this step was taken honestly to curb the black money and corruption, however, as things currently stand, there is not appropriate information or credible data to conclusively judge the impact of Demonetisation on the generation of black money and corruption.

3.6.5. Impact on Terrorism

Available evidences suggest that Demonetisation has some impact on the terrorism. Mr. DC. Pathak, former intelligence Bureau chief shared on November 10, *"While removing black money, the process it [demonetisation] will definitely address the problem areas of terror financing and fake currency. There is illegal money behind the terrorist funding. The channel through which the adversary sends in militants and arms is also used to send fake currency."* A government report in January 2017 suggested that Demonetisation has cut terror attacks by 60%, hawala business by 50% It was also observed that there was a sudden decline in the stone pelting in Kashmir. All these can be attributed to the impact of Demonetisation on the Pakistan-printed high-value fake currency notes industry. Though, this trend could not continued for long and it reversed in a matter weeks. The law and order situation in Kashmir was deteriorated. Maoist also launched a massive attack on security forces killing 25 CRPF personnel. However, central government responded with concerted efforts and NIA came down heavily on separatists in Kashmir.

3.6.6. Impact on Inflation

Demonetisation of Rs.2000 and Rs.500 notes has impacted the market and economy in several ways and most of the short term and medium term impacts have been negative. One

of the expected line of impact was on inflation and it was reported that India's retail inflation hit a two-year old low in December 2016, as businesses resorted to price discounting to boost sales during cash crunch caused by Demonetisation. Consumer prices increased by an annual 3.41% during December 2016, which was reported as the slowest pace since November 2014 and it was expected that prices would go up to 3.57% year, compared with a 3.63% gain in November. Following table shows that All India inflation rate in context of Consumer Price Index (CPI) which was 3.63% during November 2016 which was much lower than 4.88% during November 2017. This difference was more visible in context of CFPI (Consumer Price Food Index) which was 2.03% during November 2016 and 4.42% during the same month in November 2017. This table also suggest that CFPI went down to 0.75% during November 2016 which again rose up to 4.90% during a year later, depicting the real short term impact of Demonetisation.

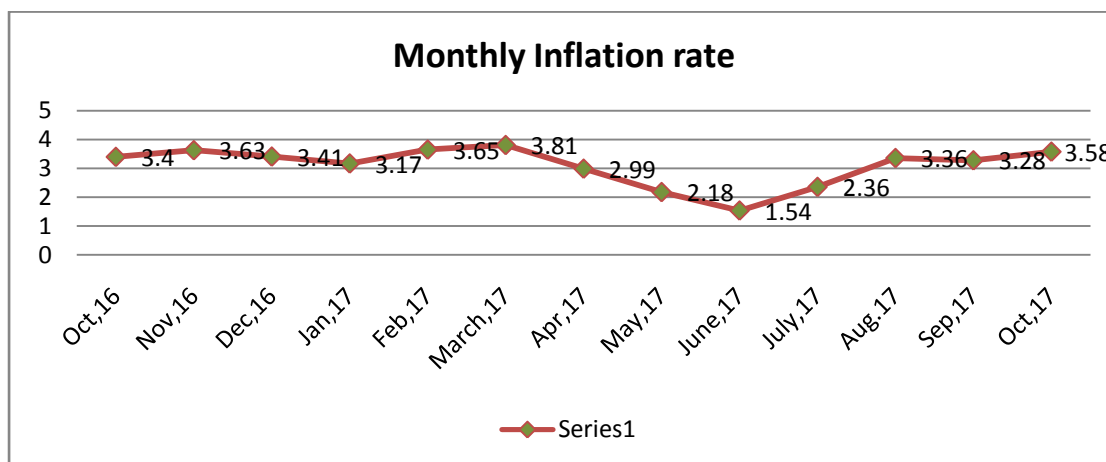
Annual Food inflation was also went down to 1.37% during December 2016 from 2.03% in November as the prices of vegetables and pulses were low after Demonetisation. It was reported that the headline inflation averaged below 4% during three months after the Demonetisation against the Reserve Bank of India's (RBI's) projection of 5% for March 2017. Biggest automobile sales fall in 16 years in December was also reported indicating towards slow down in manufacturing. A. Prasanna, economist, ICICI Securities Primary Dealership Ltd., expressed his worries in following words, "There are lots of uncertainties over global commodity prices ... all of which could pose some upside risks to inflation.

Table 3.5- Inflation Rate (CPI)

Oct, 16	Nov, 16	Dec, 16	Jan, 17	Feb, 17	March ,17	Apr, 17	May, 17	June, 17	July, 17	Aug. 17	Sep, 17	Oct, 17
3.40	3.63	3.41	3.17	3.65	3.81	2.99	2.18	1.54	2.36	3.36	3.28	3.58

Ministry of Statistics and Programme Implementation (MOSPI)

Figure 3.6 Monthly Inflation Rate (CPI)



Ministry of Statistics and Programme Implementation (MOSPI)

3.6.7. Impact on Employment

Demonetisation caused the versed impact on the employment, especially in the informal sector where payments and transactions are largely made in cash. Micro-small scale industries suffered a heavy jolt within first 34 days which resulted in 35% jobs losses and 50% dip in revenue, as reveled in a study conducted by AIMO (All India Manufacturers’ Organization). This study project that there is a clear indication that 60% drop would be registered in employment and 55% in the revenue before March 2017. The AIMO study represents over 3 lakh micro, small, and medium and large scale industries which are primarily engaged in manufacturing and export. The findings of AIMO study was reinforced by a government survey (QES-Quarterly Employment Survey of labour bureau) according to which, the manufacturing sector added 72,000 employees during October-December 2016 on a net basis, however, it also laid of 113,000 casual workers. This clearly suggested that during peak weeks of note ban casual workers, who mostly get paid in cash, are asked to leave. The latest QES observed; *“Out of (net) 1.11 lakh increase of employees, regular and contract workers accounted an increase of 1.39 and 1.24 lakh respectively whereas casual workers accounted a decrease of 1.52 lakh.”* The survey further disclosed that the number of part-time workers was also gone down by 46,000 during this period. This suggests that demonetisation may have forced factories to cut back wages that were primarily paid in cash. Government anticipated the decline in the employment rate and had set up a high-level task force under the NitiAyog vice-chairman Mr. Avind Pangariya to understand this complex issues and find tune the jobs data so that government could

formulate an effective policy for generating employment. It was projected by the World Employment and Social Outlook that unemployment in India would increase from 17.7 million in 2016 to 17.8 million in 2017 and 18 million in 2018, however, the rate of unemployment would remain 3.4% in 2017-18.

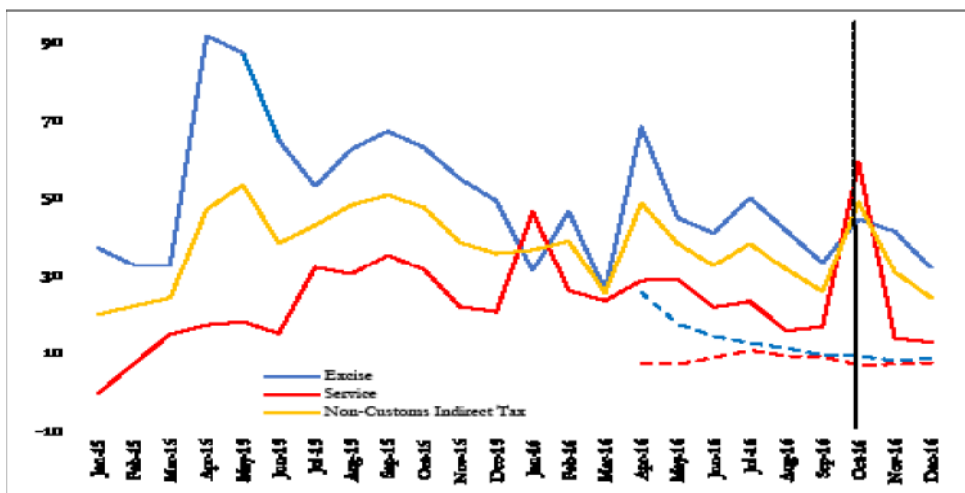
3.6.8. Impact on Digitization

One of the major objectives of the Demonetisation was to promote digitization in Indian economy. Available data suggest that Demonetisation has actually increased the digitization of the economy. A report of NITI Aayog (April 2017) shows that Demonetisation had increased the digital transaction by 23 times with 63,80,000 digital transactions for a value of Rs. 2,425 in March 2017 compared to 2,80,000 digital transactions worth Rs. 101 crore till November 2016. However, RBI data suggest that overall volume of digital transactions has gone up just 1.43 times and not 23 times. It can be said that although there are some increase in digital transactions however, the high level of digitations of economy would take appropriate time as it is a behavioral issues which is also associated with the feeling of safety and trust among people.

3.6.9. Impact on Indirect Taxes

Figure depicted the growth in indirect taxes in 2016 which suggest significant drops in terms of cumulative percentage. It can be seen that non-customs indirect tax collection has gone through a steep decline during October-November 2016.

Figure 3.7: Growth in Indirect Taxes

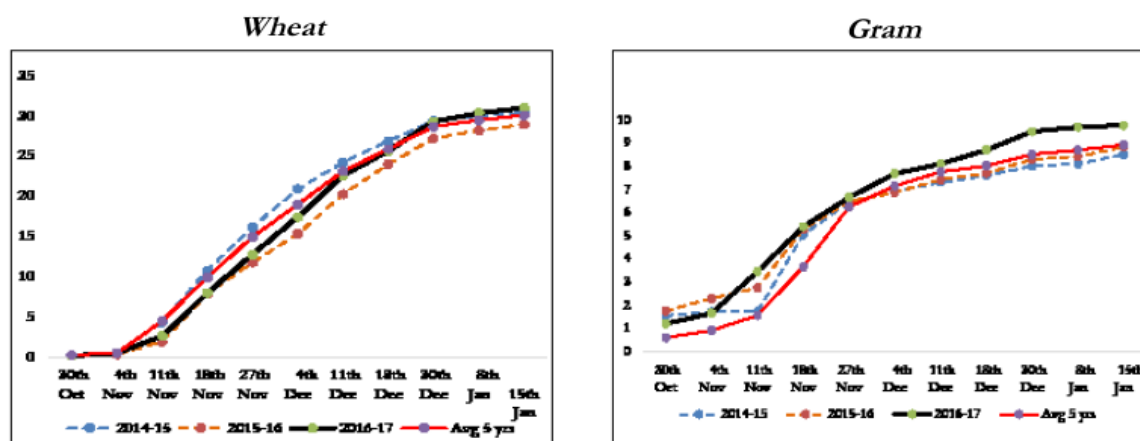


"ARM" refers to additional revenue measures (such as tax increases).
 Source: Department of Revenue and Survey calculations

It can be observe in the figure that indirect tax collection had upward trend till October 2016, however, sharp decline can be observed after Demonetisation (see Figure).

3.6.10. Impact on Agriculture and Rabi Sowing

It was the time of ‘Kharif harvest’ when announcement of Demonetisation took place. Farmers all across India experienced troubles in getting cash from cooperative banks which were barred from exchange-deposit of the demonetized currency. ‘Rabi’ sowing was also started during this time and it created real cash crunch before farmers. Agriculture experienced impact through input-output channels as well as price and output feedback effects as cash is the main mode of transaction in this sector which contributes around 16% of the GDP and engaged around 58% of the total population of the country. Farmers in Punjab, Uttar Pradesh, Odisha, Maharashtra, Gujarat and Kerala suffered significantly as they denied cash from cooperative banks. Important visible impact of Demonetisation on agriculture included high prices of wheat due to anticipated shortfall in 2015-16 output and fear of further drop in production during 2016-17.



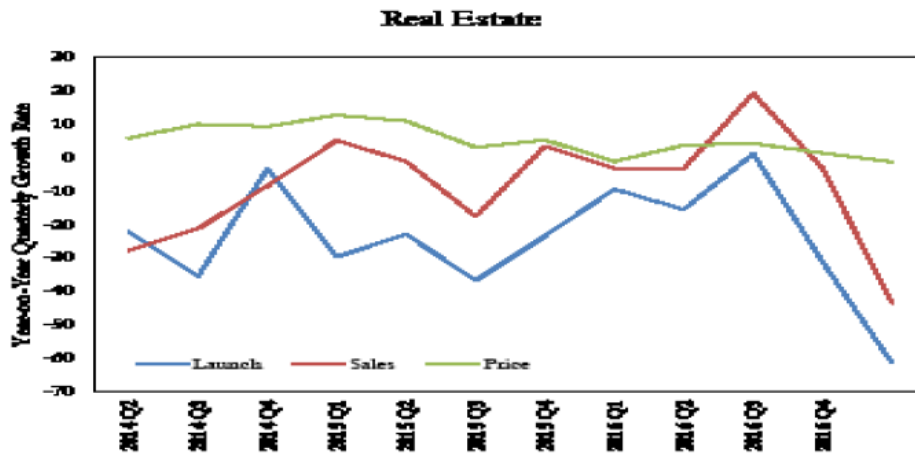
Source: Ministry of Agriculture

Figure 3.8: Rabi sowing for wheat and gram

However, contrary to early estimates and associated fears the information indicated that aggregate sowing of the two major rabi crops-wheat and pulse (gram)-exceeded last year’s planting by 7% and 15% respectively (see figure). However, conversion of these increased sowing into farmers profit would depend upon other inputs-seeds, fertilizers, credit, and labor-which were impeded due to Demonetisation.

3.6.11. Impact on real Estate Prices

It can be seen in the figure 3.9 that real estate prices did not experienced steep drops during the initial month after Demonetisation.



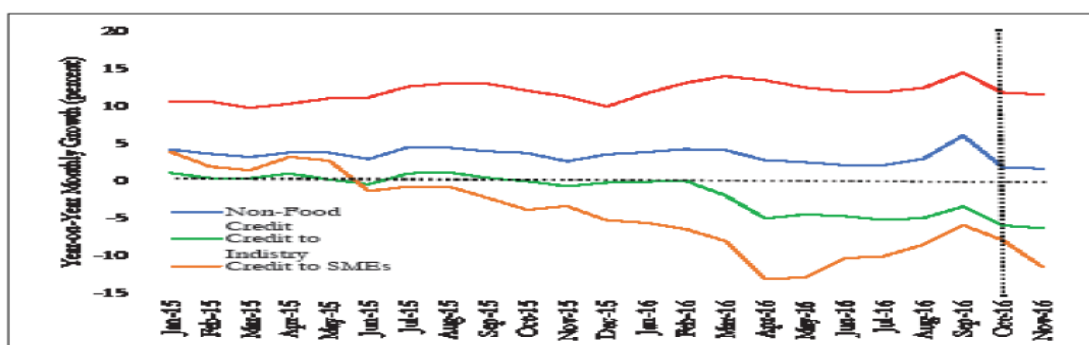
Source: Knight Frank data and Survey calculations

Figure 3.9: Real Estate prices in 2016

However, sales and launch of new projects suffered a jolt which is reflected as the step drop in their performances after Demonetisation.

3.6.12. Real Credit Growth

Real credit growth did not reflect any significant drop just after the Demonetisation as it is reflected in figure 3.10.



Source: RBI

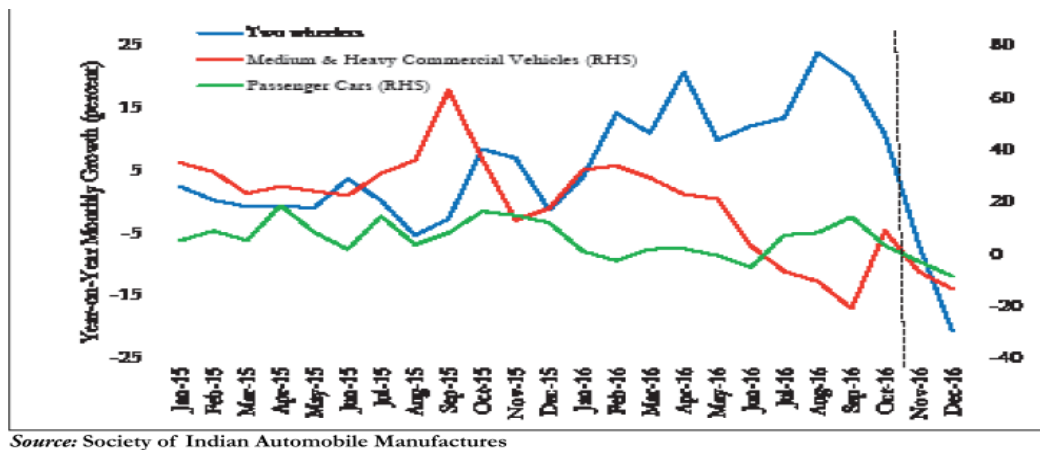
Note: Deflated by CPI New Series 2012 prices.

Figure 3.10: Real Credit Growth in 2016

However, figure suggests that an earlier trend in real credit growth performance was reinforced after Demonetisation.

3.6.13. Growth in Automobile Sale

Figure depicted the status of automobile sales during 2016 which clearly suggested previous trends (prior to October 2016) were reinforced in respect of all three categories, i.e., two wheelers, medium and heavy commercial vehicle and passenger cars.



Source: Society of Indian Automobile Manufacturers

Figure 3.11: Growth of automobile sales in 2016

3.7. Conclusion

The Demonetisation effort being led by government of India is appreciable to an extent but follows positive as well as negative aspects. The aim is to wash the stock of “black money” out of the economy and get it into the banked and taxable part of the economy. It impacted economy negatively; however, this negative impact was anticipated by government and RBI. Growth rate has gone down, employment; especially in informal sector has drastically reduced, the core sectors of economy including agriculture suffered a temporary jolt. However, evidences suggested that it brought down stone pelting in Kashmir, Terrorism and Naxalism activities for some times and gave central government appropriate time to respond to these issues with comprehensive strategies. Many experts worried about the fact that negative impacts of Demonetisation may outrun the benefits. However, for a sustainable basis of clean and transparent economic system these steps (including GST) were required.

Chapter IV

Social Responses on Impact of Demonetisation

4.0. Research Methodology

There is no doubt about the fact that the Demonetisation drive initiated by the Indian Government is going to have far reaching impact on the Indian Economy. It is being considered as one of the most significant step in tackling the black money issue that has gripped our country since many years. Some of the effects of the Demonetisation measure are illustrate in various chapters, obtained by research article, research papers, collection of news from various news papers, RBI bulletins etc. An attempt has been made to find the various objective depicted in chapter one by empirical investigation.

4.1. Objectives

Keeping above fact that it is necessary to find out the short term effects of Demonetisation on rural urban people following objectives has been formulated for the study:

- ❖ Find out the factors behind the sudden launch of Demonetisation of high value currency notes by Government.
- ❖ To find out the level of consequences of Demonetisation on production and employment.
- ❖ Find out the extent of reducing level of Inflation after launching of Demonetisation of high value currency notes.
- ❖ To study on how far the Demonetisation increases the Digital Payment mode.

4.2. Hypothesis

In order to study the short term effect of Demonetisation on rural and urban people and its policy importance, following hypotheses were planned:

Null hypotheses (H_0):

- ❖ There is no solid reason related to behind launching of Demonetisation in India.
- ❖ It is expected that inflation remains constant and is not affected by Demonetisation.
- ❖ Production and employment are not affected after launching of Demonetisation.
- ❖ After sudden launch of Demonetisation the increase in digital Payment mode was unchanged.

4.3. Collection of Data

To obtain the objectives of present study a survey was done by well structured questionnaire. The questionnaire has been made after a throw study of various scientific literatures. A pilot study has been conducted to find out the possible and needful enhancement in questionnaire. A test-retest methodology has been adopted to test the reliability of questionnaire.

A survey will conducted for collection of primary data as per the objectives of the study. The survey was conducted on 120 households for the collecting the primary data. Four different sites, i.e., two rural less developed area(Kathwara, Lucknow) more developed rural area (Kumrahwa Lucknow)and two urban Less developed urban area(Chowk, Lucknow basically commercial area) and More developed urban area (Talkatora, Lucknow basically industrial area) were surveyed in district of Lucknow. Furthermore, out of two sites, or villages one would be less developed and other would be more developed based on their performances against the key development indicators and also on economic activities in the area. Sample of households from each area was selected through proportionate to probability sampling. An about 30 households per villages/wards were surveyed for the study.

Data collected from the field would be cleaned in the field itself and then it would be entered into computer software through appropriate data entry software i.e. SPSS CPro. Quantitative analysis software was used to get the output as per the analysis plan based on the objectives of the study. The results were obtained through tabular analysis, Frequency, percentage and chi square test, etc.

4.4. Profile of Respondents

A field survey was conducted with a comprehensive survey schedule focusing in the reasons behind the decision of demonetization and its impact on economy, corruption, black money and terrorism. Survey also explored issues reported by media during and after Demonetisation, e.g., people's suffering, various forms of problems caused by the Demonetisation at individual and household levels, etc. Two urban and two rural sites in Lucknow and surrounding areas were selected for the field survey. A total of 120 respondents, equally (30 from each sites) selected from 4 survey sites, were interviewed with the survey scheduled out of which 60 were from two rural sites and rest of 60 from two urban sites. However, out of 120 respondents from both rural and urban sites there were only 18 were females. Out of 120 respondents 51 had graduate or higher degrees including 16 post graduates and 4 technical/professional degree

holders. Similarly, 16 had education up to 12th standard and other 16 up to 10th. 34 respondents out of 120 had education below 10th standard which included 17 upper primaries, 13 primary, 1 pre-schooling and 4 illiterate. Religion wise representation of the respondents reflected that sampling was appropriate as per the proportion of the various religions in the general population with heavy majority of Hindus (94), followed by Muslims (24) and others (2). Social category wise analysis of the respondents suggests that representation of general category was above than its actual share in general population of the state with 52 (43%) followed by OBCs with 41 (34.2%) and 27 SCs (22.5).

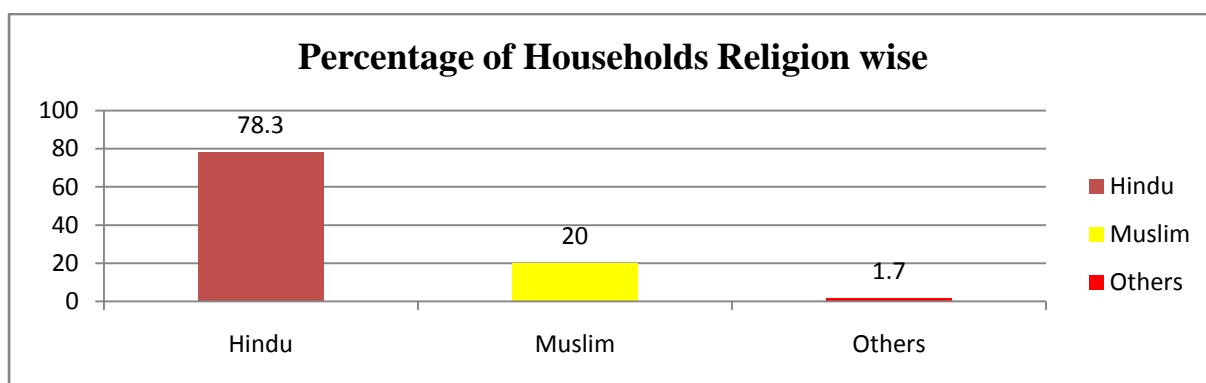


Figure 4.1: Percentage of Households Religion wise

Source: Estimated from Primary Survey

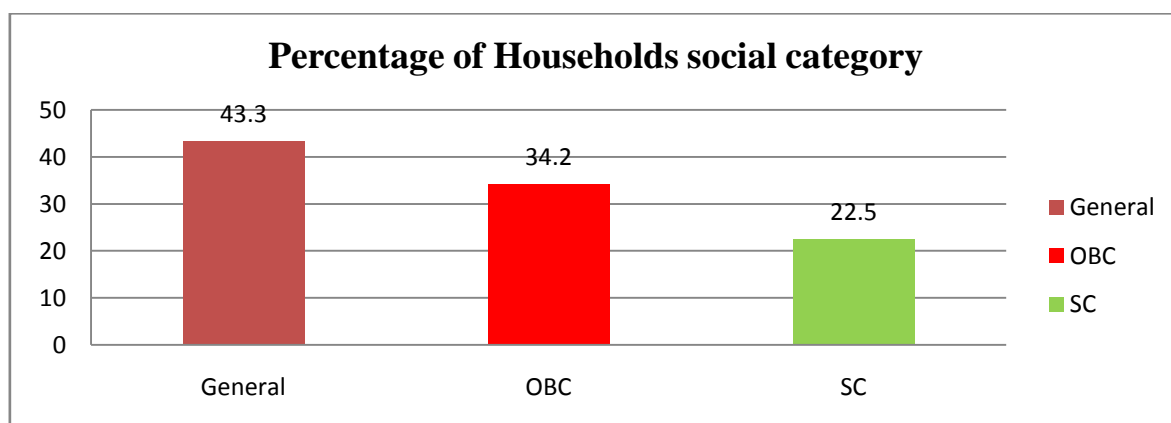


Figure 4.2: Percentage of Households Social category wise

Source: Estimated from Primary Survey

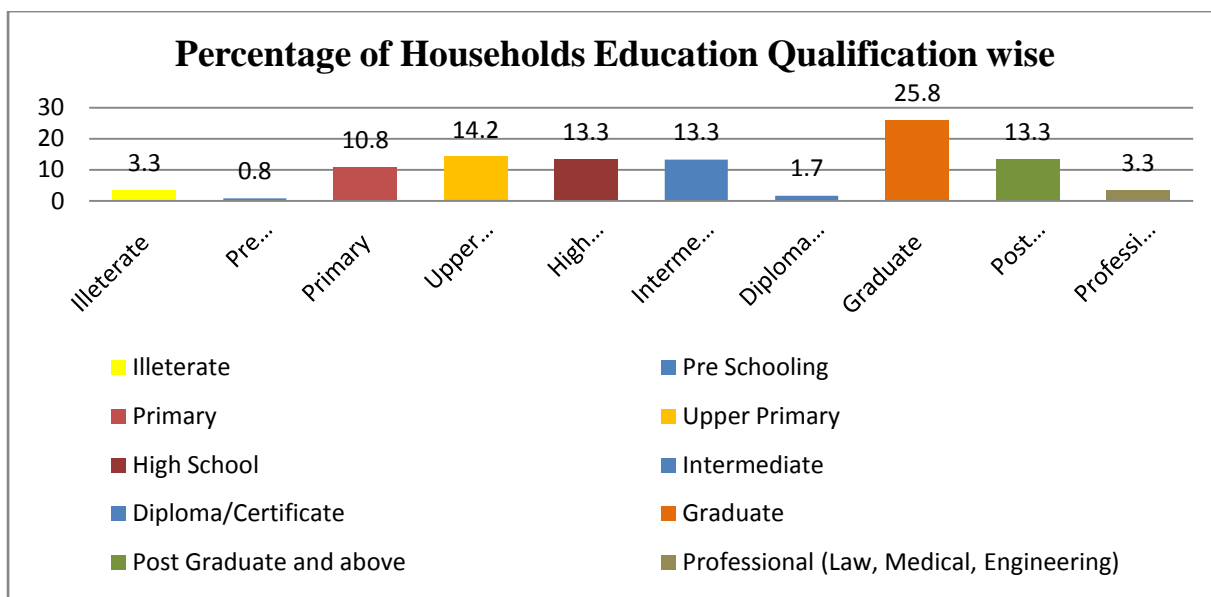


Figure 4.3: Percentage of Households Educational Qualification wise

Source: Estimated from Primary Survey

Occupation wise analysis of the respondents’ shows that highest number of them (47) was of salaried class out of which 21 were in regular salaried job, 15 were in private sector and 11 in government jobs. Apart from this 15 were agriculturists, 13 were self employed, 22 were small businessmen (including 4 entrepreneurs, 7 Chapman, 11 small businessmen), 7 producer and 6 laborers. One doctor and two housewives were also included into respondents making it occupationally varied group of people.

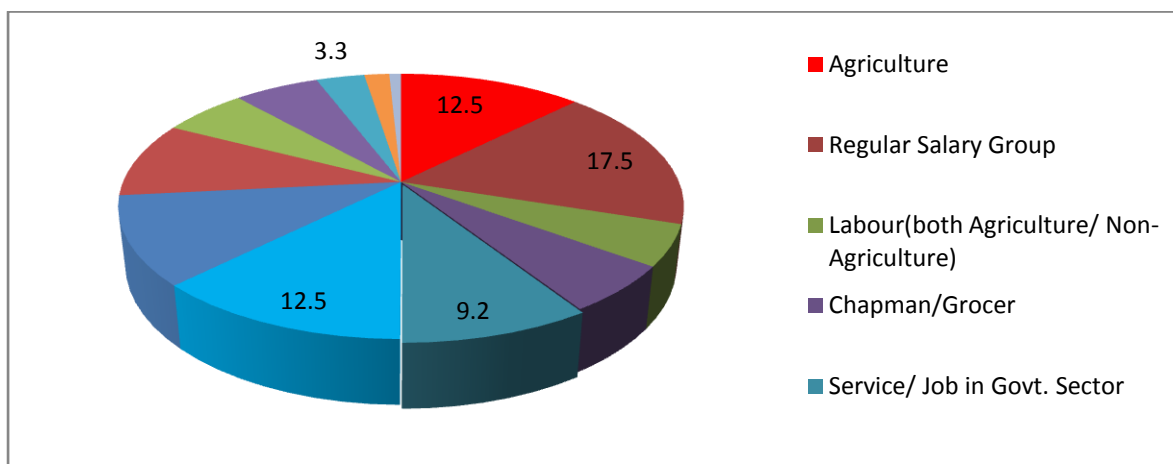


Figure 4.4: Occupational status of Households

Source: - Estimated from Primary Survey

Economic profile of the respondents also suggest a wide range with 26 respondents having less than Rs. 5000 monthly income, other 25 had between Rs. 5000-Rs.10000, 28 had between Rs.10000-20000, next 15 respondents had a good Rs. 20000-Rs.30000 and

remaining 16 represented high income group with Rs.30000/month and more. Another measure to assess the economic conditions of the respondents is analysis their expenditure pattern. Consumption based analysis of respondents also points towards a wide range of participant with 32 up Rs. 5000/month, 24 between Rs.5000-Rs.10000, 28 belonged to category of Rs.10000-Rs.20000 monthly expenditure, 17 were of category of Rs.20000-Rs.30000 and remaining 19 represent the high expenditure group with over Rs.30000 per month.

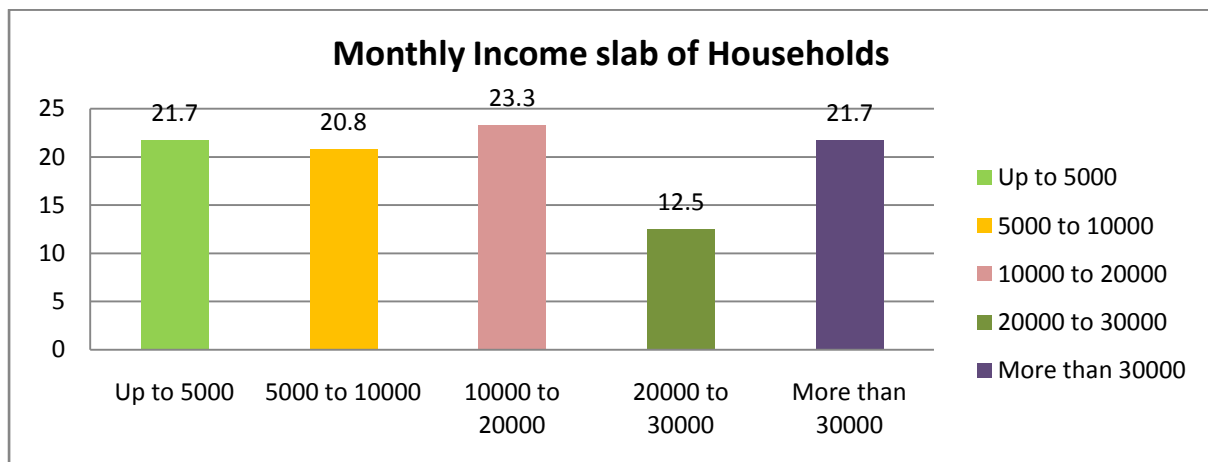


Figure 4.5: Monthly Income slab of Households

Source: - Estimated from Primary Survey

4.5. Social Responses on Corruption, Black Money and Terrorism

Findings of the survey suggest that Demonetisation has comparatively more support in rural areas than in urban pockets, possibly due to complex economic realities and presence of unorganized sector which suffered the worst impact of Demonetisation. However, an overwhelming majority (78.3%) of the respondents from both rural and urban areas were of the opinion that corruption adversely affects the growth and development of the country and region. A comparative analysis of the responses suggests that a better majority of the urban respondents (83.3%) reflected this opinion than the respondents form rural areas (73.3%). Field survey further tried to explore the opinion of the respondents on whether ‘Demonetisation’ was a great decision in right direction? A good majority (65%) of the respondents was of the opinion that it was a great decision in right direction, whereas a sizable portion (28.3%) of them did not agree to this. Interestingly, a comparatively better majority of the rural respondents said ‘yes’ to this question than the respondents form urban areas (60%) and the fact that a sizable portion (35%) of them (urban respondents) responded

negatively to this question reinforced the notion that people suffered worst impact in urban setting where according to media reports informal sector was hit hard.

a. Major Reasons Behind the Step of Demonetisation: When respondents were asked to express their opinion about the major reasons behind the step of Demonetisation most of the people enumerated curbing black money (40.8%) and corruption (47.5%). Although government representatives had highlighted terror funding as major reasons behind Demonetisation, however, strangely, only 2.5% of the total respondents expressed believe on this claim. Responses across rural and urban areas were quite similar except the fact that 5% respondents from rural areas though that curbing terrorism was a reason behind this decision, whereas not a single respondent from urban areas believed so.

b. Will Demonetisation Help Curbing Black money, Corruption, and Terrorism: Respondents were asked about their opinion on whether Demonetisation will help curbing black money, corruption, and terrorism? Interestingly, findings reflected into a very close division of opinion on this question. Although, majority (55.7%) of the respondents expressed their optimism regarding curbing black money, corruption and terrorism by this step, a significant 44.2% of the total respondents expressed negatively to this question. Interestingly, the urban majority (51.7%) were skeptical about this and expressed negative, whereas a comfortable rural majority (63.3%) expressed their faith in government's decision and claim that Demonetisation would help in curbing black money, corruption and terrorism.

c. Reasons Behind 'Sudden' Announcements: Government made it clear that decision regarding Demonetisation was kept confidential and announcement was 'sudden' to startle black money hoarders and corrupt people in order to ensure that they would not get time to exchange their unaccounted cash with gold and other forms of money or assets. Findings of the field survey suggested that majority of the respondents across rural and urban areas were convinced of government stand regarding the reasons behind the 'suddenness' of the announcement. It was found that a good majority (66.7%) of the total respondents were of the view that major reason behind the sudden announcement of Demonetisation was to startle corrupt people and black money hoarders. Around one fifth (21.7%) of the total respondents expressed that the decision regarding Demonetisation was a well planned step from government side, whereas around 8.3% of

them decided not to say anything on this issue. There was no significant difference between responses of urban and rural respondents over this question.

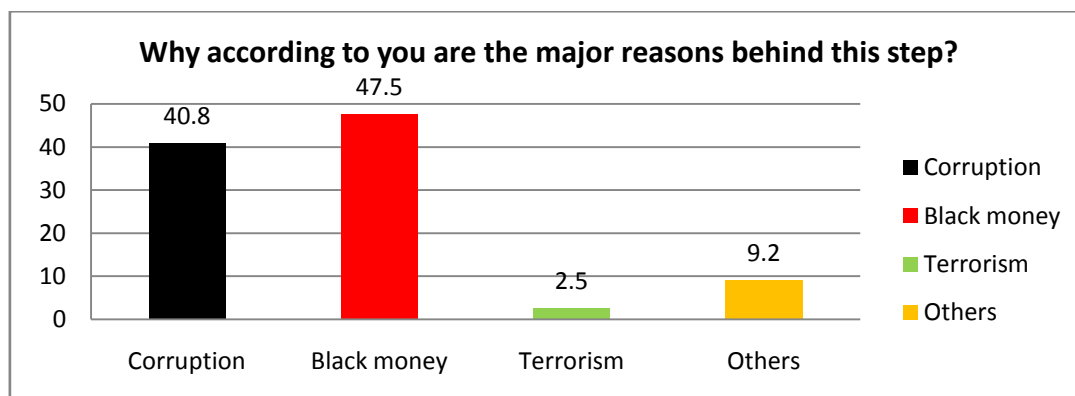


Figure: 4.6: Social Responses of Households towards major reason behind Demonetisation

Source: - Estimated from Primary Survey

4.6. Opinion about the Achievements of Demonetisation

a. Did Demonetisation help destroy the black money in India: Respondents were asked to express their opinion on whether Demonetisation had helped to destroy black money in the country or not? Again a different of opinion was reflected in the findings with 52.5% opted for 'no' and 44.2% said 'yes' whereas only 3.3% preferred not say anything regarding this. Responses were similar across rural (45%) and urban areas (43.3%) in terms of the percentage of those who expressed positively and also negatively (51.7% and 53.3%, respectively). This finding coupled with responses against other questions suggested that although majority of the respondents supported the step of Demonetisation, however, most of them believed that this could not be the only measure to destroy the black money in India or it would take some time to completely destroy the black money system.

b. Did Demonetisation Reduce the Corruption: Similar division in the opinion of the respondents was reflected on the question when respondents were asked whether Demonetisation reduced the corruption? Interestingly, 51.7% of the total respondents across rural and urban areas responded negatively to this question, whereas 45% expressed in affirmatively. Again, 3.3% preferred not to say anything on this topic. Findings suggest that a slightly better percent (46.7%) among urban respondents believed that Demonetisation had reduced corruption than that of rural counterparts (43.3%).

c. Demonetisation is a Successful Attempt to Fight Corruption: Again a sharp division was reflected by the respondents on the question whether Demonetisation was a successful attempt to fight corruption or not. A little less than majority (48.3%) of the total respondents across rural and urban areas reacted negatively to this question. However, a significant 45.8% of them expressed their belief that it was a successful attempt to fight corruption and just 5.8% preferred not to say anything on this question. No significant difference was found in opinions of respondents from rural and urban areas on this question.

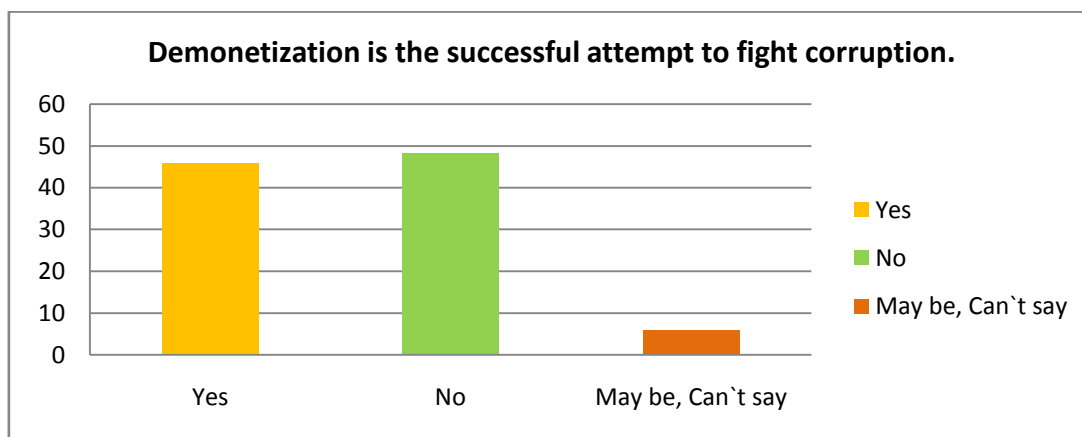


Figure 4.7: Social responses of Households towards Demonetisation is the successful attempt to fight corruption

Source: - Primary Data

d. What do You Think of Government's Efforts Against Corruption so Far: Although, a good majority (60%) of the total respondents across rural and urban areas expressed their faith in the government's action towards curbing the corruption, a significant portion (39.2%) were not satisfied with the steps taken so far in this direction. Respondents were asked to express their responses on government's effort against corruption taken so far and they were given option to respond in 'outstanding', 'good', 'useless', and 'can't say'. It was found that 15% of them opted for 'outstanding', 45% for 'good', and a sizable 39.2% for 'useless'. A significant difference in opinion was reflected into between rural and urban respondents on this question. Where 21.7% of the total rural respondents opted 'outstanding', only 8.3% of urban counterparts had similar opinion on this question. Similarly, only 33.3% rural respondents found the government efforts against corruption 'useless' whereas a much higher percentage (45%) of urban respondents had the same opinion. These findings clearly suggest towards the fact that government's steps against

corruption had wider support base in rural areas than in cities, especially during and after Demonetisation.

4.7. Impact of Demonetisation on Households

a. What according to was the level of people's suffering due to Demonetisation:

Respondents were asked to assess the level of people's suffering due to Demonetisation. It was found that overwhelming majority (84.2%) of the respondents across rural and urban areas were of the opinion that people did suffer significantly due to Demonetisation. However, where 43% of them believed that people's suffering was high on their scale, the other 40.8% opined that it was at medium level. Only, 11.7% of the total respondents believed that it was a low level of suffering for people. Again, 4.2% of them preferred not to say anything on this question. There was significant difference between the responses of rural and urban respondents on this question. It was found that 48.3% urban respondents thought that people's suffering was 'high' due to Demonetisation, whereas only 38.3% (10% less) rural respondents thought so. Similarly, 18.3% rural respondents believed that there was low level of suffering among people due to Demonetisation only 5% urban counterparts had similar views.

b. What was the Major Form of People's Suffering Due to Demonetisation:

Majority of the respondents, as we have mentioned above, supported the view that people suffer significantly due to Demonetisation. Survey further explored various forms of people's suffering due to Demonetisation. Respondents were given three four options including mention any specific form, besides three major forms of suffering based on media reports, i.e., standing in long queues in front of ATM/banks for cash, deprived of cash during time of need, and loosing employment/livelihood. Responses across rural and urban areas shows that deprivation of cash during time of need (36.7%) and standing in long queues for cash in front of ATM/bank (35.8%) were the most frequently forms of people's suffering, followed by 'loosing employment/livelihood'(26.7%). Although only 26.7% of the respondents mentioned that people lost employment/livelihood due to Demonetisation, however, this percentage was enough to indicate the high/extreme suffering of people, especially those who are working in informal sector of the economy. Again there were significant differences between the responses of rural and urban respondents. Whereas 41.7% of the urban respondents believed that standing for cash in front of ATM/bank branch was a major form of

suffering during Demonetisation only 30% (11.7% less) respondents form rural areas had similar views. Furthermore, 45% of rural respondents shared that ‘no cash during the time of need’ was an important form of suffering due to Demonetisation, only 28.3% (16.7% less) urban respondents thought so. However, responses were almost similar (Rural 25% Urban 28.3%) in context of opting ‘loosing employment/livelihood’ as one of the major form of suffering due Demonetisation.

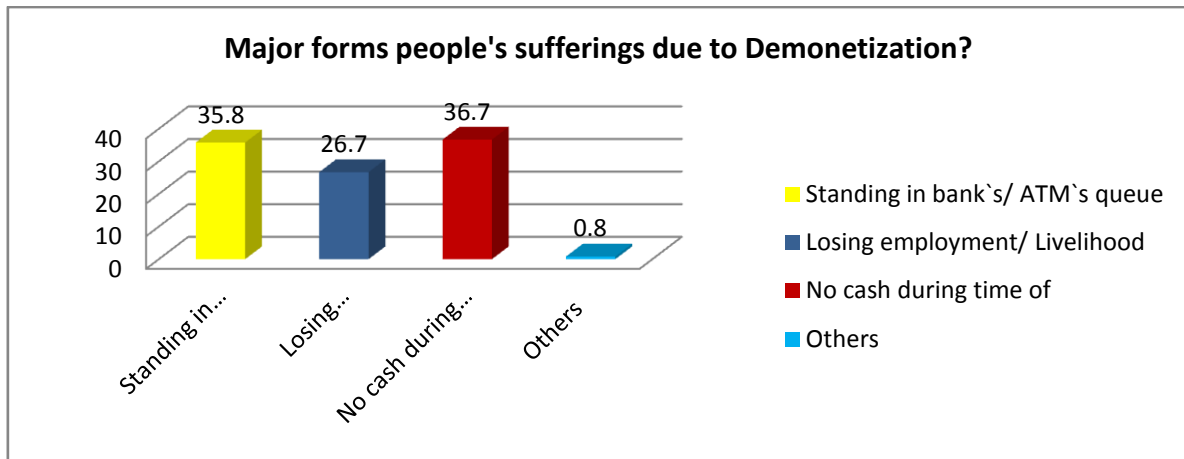


Figure 4.8: social responses of Households towards Major forms people's sufferings due to Demonetisation

Source: Estimated from field survey

c. Which Section of the Society has been hit Hard Due to Demonetisation

It was reported in media that majority of people suffered due to Demonetisation and many of them lost their jobs/livelihood. This field survey tried to explore which section of the society suffered most due to Demonetisation. Respondents were given options which included poor and laborers, private employees and producers, self employed and corrupt people/black money hoarders. One third (33.3%) of the respondents across rural and urban areas shared that corrupt people/black money hoarders were hit hard, whereas around one fourth (24.2%) opted for employees/producers. However, a sizable portion of the respondents opted for poor/laborers (21.7%) and self-employed (20.8%) as the hardest hit section of the society. Responses varied across rural and urban areas on this question as 30% rural respondents thought it was the ‘poor and laborers’ section which suffered the most due to Demonetisation only 13.3% urban respondents held similar views. Again, according to 28.3 urban respondents the ‘private employers/producers’ suffered most whereas in rural respondents only 20% had similar views. In other two options, i.e. self

employed and corrupt/ black money hoarders the difference of opinion between rural and urban respondents were thin.

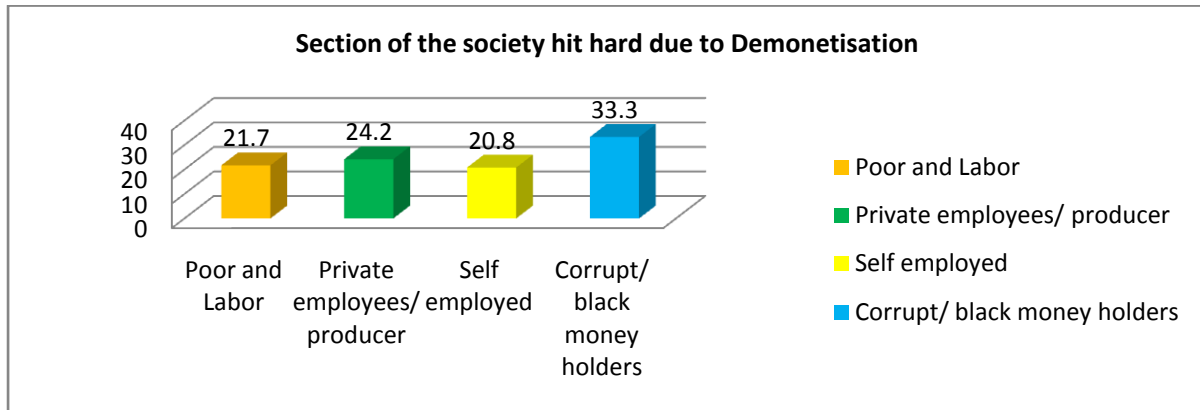


Figure 4.9 : Social responses of Households towards which section of the society hit hard due to Demonetisation

Source: - Primary Data

4.8. Impact of Remonetization on Fiscal Condition

a. Did Re-monetization of new Notes (HDNs) help to continue the Economic Activities

Field survey also explored whether the new notes helped continuing the economic activities after a short period of extreme suffering? Interestingly, an overwhelming majority (75.8%) responded affirmatively to this question and only 20% of them said ‘no’. Again there was some difference in the opinions of respondents from rural and urban areas as 80% of the rural respondents said, ‘yes’ to this question against 71.7% of their urban counterparts. This finding reinforced the outcomes regarding other queries that Demonetisation had wider support in rural areas than urban.

b. Introducing Rs.2000 note Logical or not Many media reports and articles questioned the step of introducing Rs. 2000 note, after Demonetisation. Field survey explored respondent’s opinion on this issue. Strikingly, again an overwhelming majority (83.3%) across rural and urban areas supported government’s move to introduce Rs. 2000 notes and only 16.7% thought that this was not logical. However, the support in this regard was higher in urban areas with 86.7% respondents thought the step was logical, whereas in rural sites this percentage was slightly less (80%).

c. Are you Finding it Difficult to use new Rs. 2000 notes in the Market

It was also reported in the media that people find it difficult to use Rs. 2000 notes as there was no or very limited cash in low denomination currency available in the market. This

survey explored respondent's opinion on this question. It was found that a good majority (67.5%) of them did not find any difficulty in using Rs.2000 notes in the market, whereas one fifth (20%) of them expressed that there was some difficulty in this regard. A small section (12.5%) of the respondents shared that there was difficulty however only sometimes. Responses across rural and urban areas did not reflect much difference the experiences of respondents in respective sites as 70% of the rural respondents did not find difficulties in using Rs.2000 notes in the market, and in context of urban areas it was 65%, i.e., just 5% less.

d. How far the Demonetisation increased the Direct Tax Revenue It was reported in media that Demonetisation has increased direct tax revenue as now it becomes difficult to hide income and hoard unaccounted money. This issue was explored in the field survey and respondents were asked how far the Demonetisation had increased the direct tax revenue. Responses were divided in to three main options given to them with 35.8% said that increase in direct tax revenue was medium level, 34.2% opined that there was no change in this regard, whereas according to 20.8% of the total respondents there was a high increase in the direct tax revenue. Remaining 9.2% did not find themselves in the position to respond to this question and opted for can't say anything. There was no significant variation in the responses across rural and urban areas except that 38% urban respondents believed that situation regarding direct tax collection remained unchanged whereas it was only 30% in context of rural sites.

4.9. Trends in Digitization

Survey explored the tendency among respondents regarding using online payment to assess the level of digitization, especially after Demonetisation.

a. Bank Account It was found that 17.5% of the total respondents across rural and urban areas did not have bank accounts. Only 82.5% of them shared that they had bank accounts. Strangely, higher percentage (85%) of the respondents from rural areas had bank accounts in comparison to urban areas (80%). This difference may possible be due to the lack of support system in urban areas in context of casual labors. They generally don't have time to visit banks apart from the fact that they prefer to keep cash with them and also that they lack essential documentary required for opening bank accounts. Furthermore, when it was explored what type of account they had it was found that majority (53.3%) had saving accounts, followed by those (17.5%) who had bank accounts under Jan DhanYojna and

remaining (11.7%) had current accounts. As we have mentioned in the context of earlier question that rural casual laborers in urban areas do not have time, interests and essential documents required for opening bank account, this view was reinforced by the fact that only 11.7% urban respondents had opened bank accounts under Jan DhanYojna against 23.3% in rural areas. It was also found that a significantly higher percentage (18.3%) of urban respondents had current accounts than their rural counterparts (5%). Furthermore, a majority (61.7%) of the total respondents had bank accounts in Public Sector Banks (PSBs), whereas others (21.8%) had their accounts in Regional Rural Banks (RRBs). A sizable portion of the rural respondents (41.7%) had bank accounts in RRBs whereas 43.3% of them had accounts in Public Sector Banks. On contrary all those (80%) with bank accounts in urban areas had accounts in PSBs.

b. Awareness and Practices regarding Online Payment Mode Field survey explored level of awareness and uses regarding online payment mode among respondents. It was found that majority of them (58.3%) had low level of awareness regarding various mode of online payment and they were not using any mode for their transactions. On the other hand, 23.3% of the total respondents had high level of awareness regarding this and they were using online payment options for their transactions. Similarly, 15.8% of the total respondents had medium level of awareness regarding online payment mode and they shared that though people around them were using online options in their transactions, they were not. Significant variations in the responses of rural and urban respondents were reflected as 73.3% of them from rural areas had low level of awareness and they were not using online payment mode for their transactions, whereas it was 43.3% in context of urban areas.

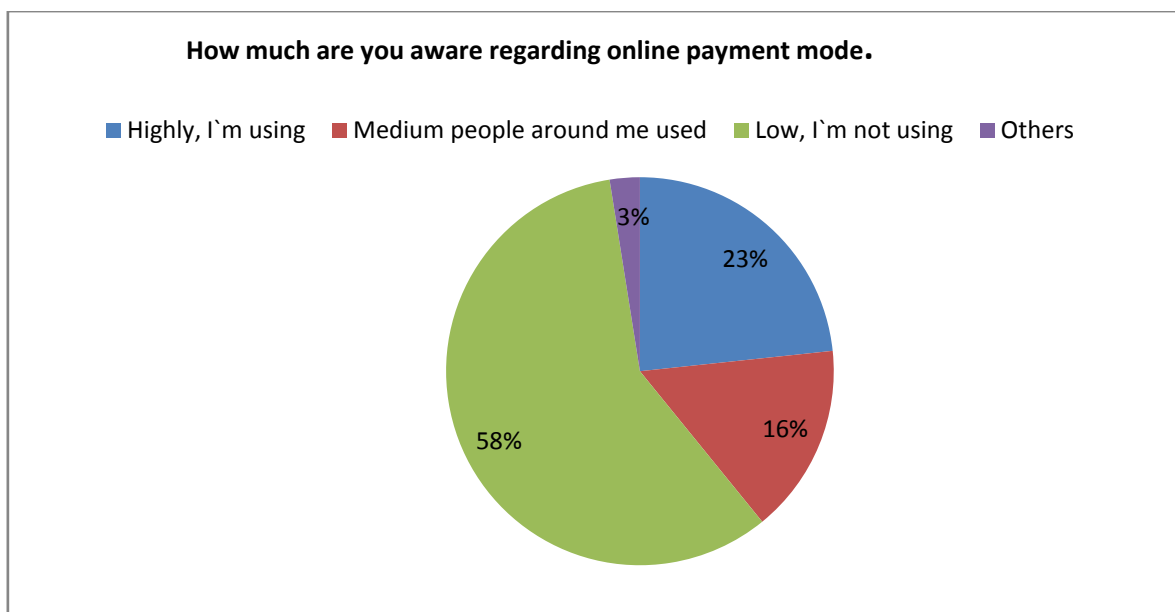


Figure: 4.10: Social responses of Households towards how much their awareness regarding online payment

Source: Estimated from field survey

c. Practices regarding Specific Online Transactions Survey explored use of online payment mode for specific services among respondents. It was found that 45% of the total respondents used online payment for railway or air ticket booking, whereas 55% of them did not respond to this question. Responses across rural and urban areas did not reflect much variation, in this regard. Similarly, when asked about use of online mobile/DTH recharge, only 30.8% of the total respondents reacted affirmatively and remaining 69.2% preferred to keep silent on this question. Strikingly, a better percentage (41.7%) of rural respondents used online payment mode for recharging mobile/DTH against their urban counterparts (20%). Furthermore, 32.5% of the total respondents informed that they had purchased items through online payment and 31.7% of them availed online payment for essential services. It was found that a higher percentage (41.7%) of urban respondents purchased goods only than their rural counterparts (23.3%). However in respect paying for essential services rural respondents (33.3%) were more active than urban (30%).

d. Awareness and use of online Transaction Applications It was reported by 15% of the total respondents that they were aware of online applications and they were using them. Similarly, 10% of them shared that they had medium level of awareness regarding online payment application but people around them were using them. On the other hand 16.7% had low level of awareness regarding these applications and a majority of the respondents (58.3)

shared that they were not using any such application. Responses varied across rural and urban sites with 63.3% of the respondents from rural areas did not have appropriate awareness about these applications (completed non-users) against the 53.3% complete non-users in urban areas. Similarly, 20% of the urban respondents were users of these applications while in the case of their rural counterparts this percentage was just 10%. These findings suggest that it would take some time for people to be aware about and start using online payment modes and applications.

e. Awareness about Government Campaign on Digitization/Cashless Transactions

Government initiated campaign for raising awareness among people regarding cashless transaction and Bhima application. Field survey explored the level of awareness among respondents in this regard. It was found that majority (51.7%) of the respondents did not have any awareness about government campaigns/advertisements regarding promotion of cashless transactions, whereas remaining (48.3%) respondents responded affirmatively on this question. This finding indicates towards ineffective efficacy of government advertisement/promotion on cashless transaction. However, there was a sharp contrast in the responses against this question across rural and urban respondents with 58.3% of awareness in urban areas and just 38.3% in rural. Therefore, it can be said that majority of the urban respondents (58.3%) were aware of government advertisements/campaigns for the promotion of digitization. On the other hand, majority of the rural respondents 61.7% was not aware of any such campaign.

f. Medium of Information Survey further explored the medium of communication regarding this information. It was found that 27.5% of the total respondents got this information from news papers, 12.5% from television and remaining 8.3% from radio. This clearly suggests that print and electronic media play crucial role in dissemination of important information among masses. This clearly indicates towards the barriers in reaching rural population, especially through print and electronic media. It was found that 'radio' (10%) is still a comparatively popular medium of communication in rural areas than in cities (8.7%), whereas access to information through television is still a distant dream for people in rural pockets (5%) than in urban sites (20%), perhaps mainly due to differences in the availability of electricity in both areas, during important times of the day. It was also reflected that people in rural areas (23.3%) had less access to print media, e.g., news papers than that of urban areas (31.7%). In accordance with this finding 27.5% of the total respondents were aware of the Bhima Application for online transactions developed by government, whereas a big majority (72.5%) of them showed their unawareness about this.

Again there was a significant difference in the level of awareness about Bhima Application across rural (23.3%) and urban areas (31.7%).

g. Cashless Transaction during Demonetisation Survey asked respondents regarding their experiences of cashless transactions, if any, during the Demonetisation. It was found that an overwhelming majority of them (85%) did not use online payment mode even during Demonetisation. Only 15% said they used online payment mode during Demonetisation out of which percentage of urban respondents (18.3%) was higher than that of rural (11.7%). It was reported by 10% of the total respondents that they used paytm, whereas 2.5% of them used M-PESA, 0.8% used MyAirtel app and same 0.8% had used Bhima Application for transaction during Demonetisation. No significant difference in the responses was found across rural and urban respondents on this question. Lack of appropriate knowledge (49.5%), doubts regarding their safety (23.3%) and irresponsibility of banks towards their clients (11.7%) were reported as the major reasons for not using online application even during Demonetisation. A sharper variations in responses across rural and urban areas reflected in context of given options, i.e., 'irresponsibility of banks and related institutions to support their clients' (18.3% rural, 5% urban), 'lack of appropriate knowledge' (40% rural, 58.3% urban) and 'it is still risky' (28.3% rural, 18.3% urban).

h. Efficacy of Government Campaign/Advertisement regarding Digitization Field survey explored the efficacy of government advertisement regarding digitization and asked several questions on that issue with respondents. It was asked whether respondents used online payment options for any product or services after getting information from government advertisement after Demonetisation. An overwhelming majority (80%) of respondents from rural and urban areas replied negatively to this question and only 20% of them had used online payment options for any product or services after getting information from government advertisement. A significant variation reflected in context of this question across rural (15%) and urban areas (25%) suggesting a better impact of these campaigns in cities and an effective penetration of print and electronic media in urban population. Another question which was asked to assess the efficacy of the government advertisement was whether they (respondents) think that people would be motivated towards cashless transactions after going through government advertisement. Again, the majority of the respondents (61.7%) from rural and urban areas opined negatively, whereas 38.3% of them thought people would be motivated towards cashless transactions after viewing these advertisements. Again, a sharp contrast reflected in the responses across rural and urban areas

as half of urban respondents believed that government advertisement would motivate people towards cashless transactions, whereas only 26.7% of the total respondents from rural areas expressed similar view.

4.10. Impact of Demonetisation on Consumption Expenditure, Employment and Saving of Households

a. Inconvenience felt Due to Demonetisation

Field survey explored respondents suffering and inconvenience due to Demonetisation and asked few questions in this regard to capture their experiences. An overwhelming majority (79.2%) of them shared that they felt inconvenience during Demonetisation period, whereas 20.8% said that they did not feel any inconvenience during Demonetisation. When it was asked how much inconvenience they had gone through, it was found that 33.3% of total respondents were highly affected, 21.7% of them were affected at medium level, and 24.2% were marginally affected. Surprisingly, 20.8% of them preferred not to say anything on this question. A comparative analysis of the findings of this question suggests that a higher percentage of urban respondents (85%) felt inconvenience than their rural counterparts (73.3%).

b. Impact on Expenditure and Savings

There were plenty of media reports on the impact of Demonetisation on the household's expenditure. When it was explored whether Demonetisation actually affected their expenditure 75% of them said 'yes' and 25% opted for 'no' to this question. There was no significant variation in the responses across rural and urban areas on this question. Survey further explored the extent of affect on expenditure due to Demonetisation and it was found that 34.2% of them experienced high impact on their expenditure, while 18.3% went through medium impact and 22.5% reported marginal impact. Again, 25% of the total respondents preferred not to say anything on the extent of the impact on their expenditure due to Demonetisation. A significant portion of urban respondents' household's expenditure (40%) were highly affected due to Demonetisation than their rural counterparts (28.3%). Similarly, a significant 48.3% of the total respondents shared that Demonetisation impacted their savings, whereas 51.7% of them denied any such impact. There was a significant difference in the responses across rural and urban areas on this question with majority of the urban respondents (58.3%) accepted that their savings were affected due to Demonetisation, whereas the majority of the rural respondents (61.7%) denied any such impact.

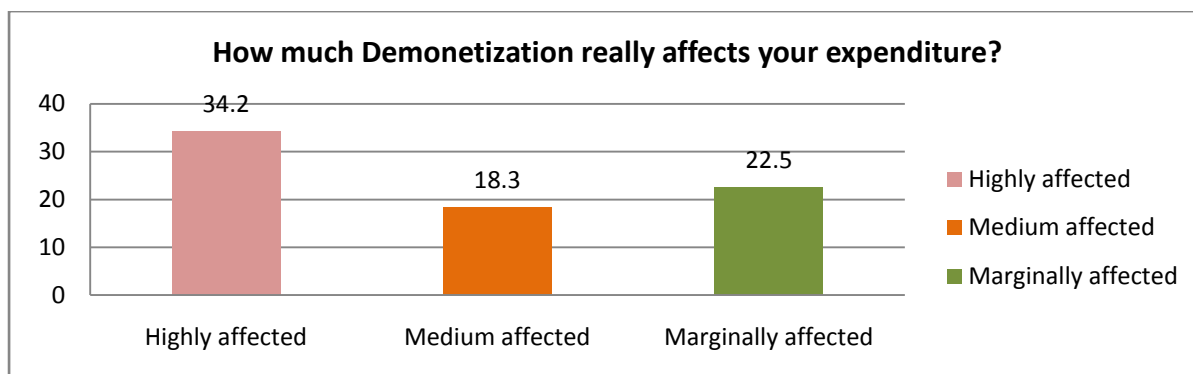


Figure 4.11: Social responses of Households toward How much Demonetisation affect their expenditure

Source: Estimated from Primary survey

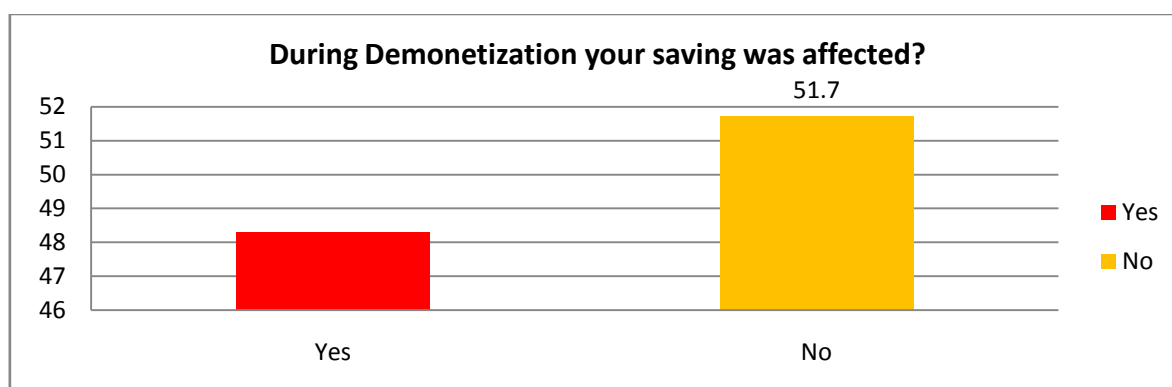


Figure: 4. 12: Social Responses of households towards How much Demonetisation affect their saving

Source: - Estimated from Primary data

c. Impact on Prices It was also reported in the media that due to Demonetisation prices went high due to shortage of supply on essential goods and services. However, majority of the respondents (57.5%), shared that prices remained unchanged during Demonetisation, whereas 20.8% of them acknowledged that prices of essential goods and services went up. An insignificant 1.7% said that prices went down due to Demonetisation while a sizable portion (20%) of them did not answer to this question. Strikingly, a significant 33.3% urban respondent confirmed that prices indeed went high during and after Demonetisation, only 8.3% of their rural counterparts acknowledged this. Similarly, where 65% rural respondents shared that prices remained unchanged during and after Demonetisation a less percentage of their urban counterparts (50%) confirmed the same.

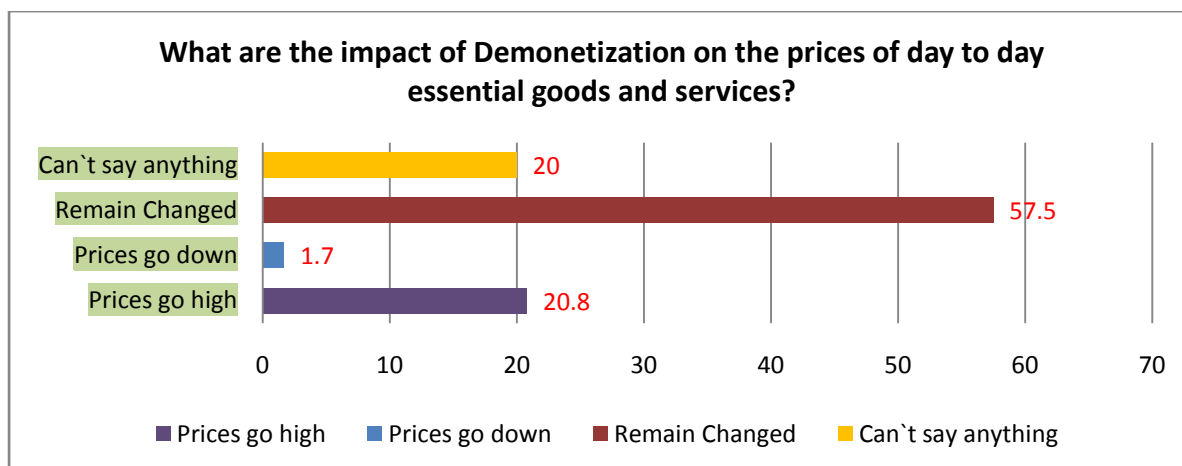


Figure 4.13: Social Responses of households towards how much affected price of essential goods after Demonetisation

Source: Estimated from Primary data

d. Impact on Employment Status It was reported in the media during and after the Demonetisation that a large section of the people had lost jobs due to Demonetisation. This issue was explored during the field survey. It was reported that 16.7% of the total respondents lost their employment, whereas 31.7% suffered marginal impact on their employment status. Comparative analysis reflected that 43% rural respondents did not feel any impact on their employment status than just 18.3% of their urban counterparts. Similarly, 41.7% of the urban respondents suffered marginal impact on their employment than just 21.7% in respect of their rural counterparts. These findings suggest that impact of Demonetisation on employment was significant in urban areas than in the rural areas. Respondents were asked whether Demonetisation impacted the employment status of their family members/friends. Surprisingly, a significant percentage (46.7%) of the total respondents confirmed that their family members/friends had lost their employment due to Demonetisation. However, the majority of them (53.3%) reported negatively to this question. However, majority of rural respondents (65%) reacted negatively on this question whereas the majority of respondents from urban areas (58.3%) responded affirmatively. It was also explored whether Demonetisation had impacted main source of their family's livelihood. A good majority of them 63.3% responded negatively to this question, however, again a significant portion (36.7%) of said 'yes' to this question. A slight urban-rural variation was also reflected on this question as 40% urban respondents accepted that the

main source of their livelihood was impacted due to Demonetisation whereas only 33.3% responses from rural areas expressed the same.

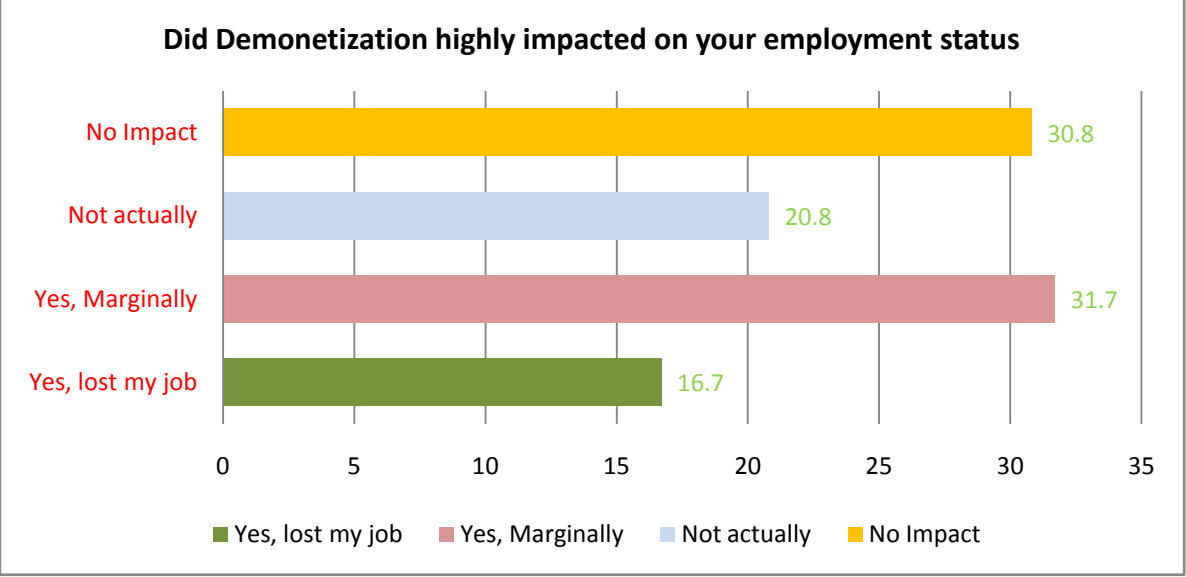


Figure: 4.14: Social Responses of households towards how much affected their Employment status after Demonetisation

Source: - Estimated from Primary data

e. Various Forms of the Impact of Demonetisation Field survey explored various forms of the impact of the Demonetisation and different questions were asked with respondents in this regard. Major forms of the impact of Demonetisation was reflected, according to respondents, in reduction of working days (71.3%), drops in the sell/production (59.2%), loss of jobs (39.2%) and their being unable to invest (27.5%). A significant variation (25%) in responses across rural (53.3%) and urban (28.3%) reflected in the context of impact on selling the produced which was prominent in rural areas. It was reported in media that farmers could not get appropriated prices of their produce due to cash crunch in market. Furthermore, 55% of the total respondents agreed to the fact that Demonetisation impacted the families of their friends and relatives in same manner. While majority of the urban respondents (61.7%) reacted affirmatively, in rural areas the majority (51.7%) responded negatively to this. When asked about what time frame according to them would require to normalize the situation, majority of them (60.8%) said, it would take between one to two years, whereas 18.3 % though it would take longer than that. However, 17.5% of the total respondents thought it would take less than a year to normalize the condition, whereas 3.3% believed that situation has already recovered till the time of the survey. In rural areas only

11.7% respondents believed that it would take a long time to recover from impact of Demonetisation and normalization of the economy against 25% of their urban counterparts. Similarly, 70% rural respondents thought it would take medium time (one to two years) while only 51.7% urban respondents had similar views. These responses once more suggest that Demonetisation had a wider support base in rural areas than in urban areas.

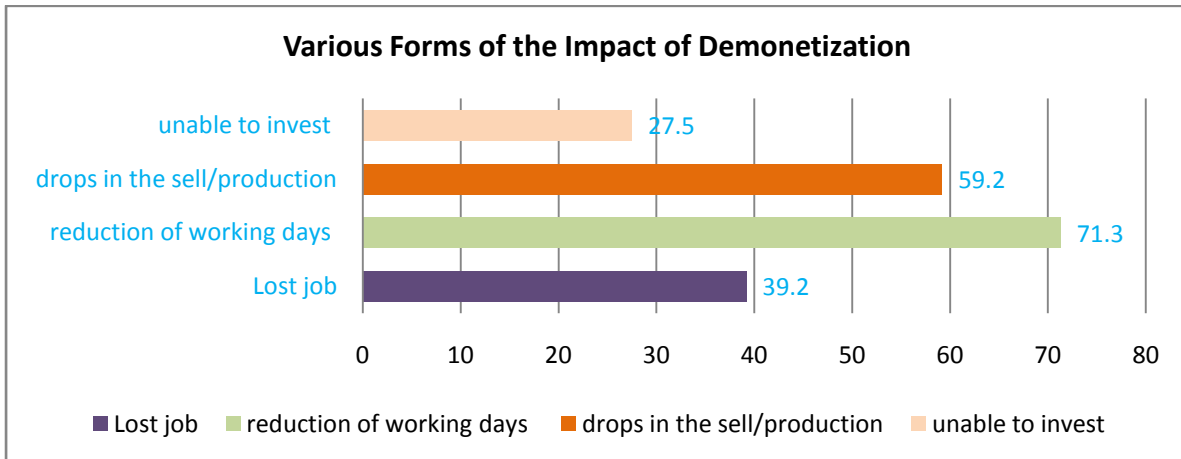


Figure 4.15: Social Responses of households towards Various form of the impact of Demonetisation

Source: Field Survey

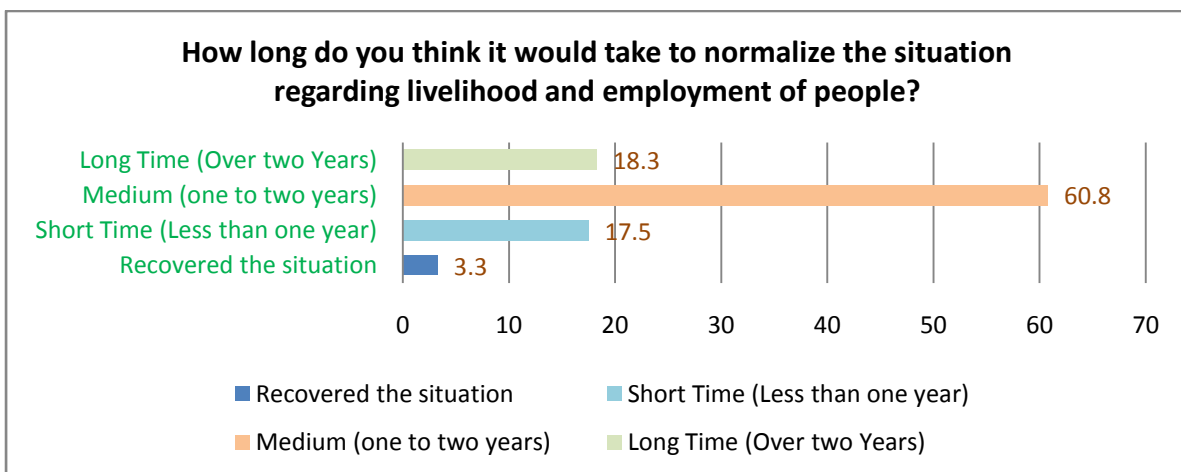


Figure: 4.16: Social Responses of households towards How long will take time to normalize the situation regarding economic activity.

Source: Estimated from field survey

4.11. Conclusion

Field survey which was conducted in four sites, i.e., two urban and two rural, in Lucknow and surrounding areas with respondents of varied occupation, socio-economic and educational background yielded interesting findings. It was found that rural areas reflected higher percentage of support for Demonetisation than the urban areas, especially in context of governments claim that it was an effective measure against corruption, black money and terrorism. The decision, according to major findings of the survey, was suddenly taken in order to startle the corrupt people and black money hoarders. Though majority of the respondents across rural and urban areas thought that it was an effective step towards curbing the black money and corruption, however, findings support this view that addressing the issue of black money would take loner time. People in both rural and urban areas had gone through some sort of discomfort due to Demonetisation and shortage of money during the time of need was a major form of suffering, apart from the fact that farmers/producers could not sell their produces during shortage of cash in the market.

Survey reflected that re-monetization with introduction of the new notes has helped recover the economy in desired timeframe. Majority of the people felt that introduction of Rs.2000 note was logical. Majority of the people according to the survey did not find significant problem in using Rs.2000 note in the market. Survey reviled that people still had very low level of awareness regarding online payment modes and related application. Though government campaign had brought some difference in this regard, however, it would take long time to achieve the objectives of digitization in the country. Demonetisation had some impact on people's savings and expenditure, especially in context of their household's expenditure. It was found that there was significant impact on the individuals' employment status of respondents, however, this impact was felt more in urban areas than in rural areas. Furthermore, it was revealed that Demonetisation impacted the sale of produce due to sluggish market. It was expressed by the majority of the respondents that it would take at least a year or two to completely normalize the situation

Chapter: V

Conclusion and Policy Implications

5.0. Major Findings

Money has played important role in development of economic activities and institutions all across the world. In course of time it took several forms, however, its basic functions remained the same, i.e., providing a medium of exchange, standard of value and a store of value. From ancient time till eighteenth century various forms of money can be linked to 'commodity money' type which carries the real value equal to its face value. However, fiat money, i.e., money/currency based on government fiat or declaration as legal tender, replaced the commodity money in modern time. Economic development and monetary system has been closely linked with each other. Demand for money, in view of the classical economists, e.g., J.S Mill and Irving Fisher, depends primarily on the volume of the transactions in the economy, which in turns is based on the level of national income or GDP. On the other hand, Keynes stressed that people demand money with transaction, precautionary and speculative motives. According to James Tobin, an American economist, individual's behavior shows risk aversion. That is, they prefer less risk to more risk at a given rate of return. The riskiness of bonds has an effect that is similar to the lower rate of interest as it increase the quantity of money demanded. Similarly, Prof. W. Baumol put forward a new approach to explain the transaction demand for money instead of Keynes's speculative demand for money. However the rate of money supply can be understood by the velocity of circulation of money related concept. The movement of money from person to person for payment of goods and services determines the flow of money.

Demonetisation of currency means discontinuity of the particular currency from circulation and replacing it with a new currency. Many nations have demonetized their currencies in the past. Important countries which have demonetized their currencies included Australia, Zimbabwe, North Korea, Pakistan, Myanmar, Ghana, Nigeria, Soviet Union, United Kingdom, and United States. Furthermore, there were many occasions when Indian government has taken such steps. It was on 12th June, 1946, when currency note of Rs 1000 and Rs 10000 were removed from the system in India. Similarly, on 16th June, in 1978, the then Prime Minister of India Morarji Desai announced the currency ban taking Rs 1000, Rs 5000 and Rs 10,000 out of circulation. However, in the recent context, it is the banning of the

Rs 500 and Rs 1000 denomination currency notes as a legal tender through an accouchement by Prime Minister of GOI on 8th November 2016. The government's stated objective behind the Demonetisation policy are as follows; first, it is an attempt to make India corruption free. Secondly, it is done to curb black money, third to control escalating price rise, fourth to stop funds flow to illegal activities, fifth to make people accountable for every rupee they possess and pay income tax return. Finally, it is an attempt to make a cashless society and create a Digital India. However, the element of 'suddenness' in the Demonetisation was criticized by many experts and political parties as lack of preparedness behind the entire exercise, which was further reinforced by the delays in the Demonetisation. Furthermore, many prominent experts denounced this step as a big mistake which would ruin the economy, growth and employment, especially in the informal sector which form over 90% of the economy.

Important among them included the Nobel laureate and eminent economist Amartya Sen who said, "The Demonetisation of currency is a despotic act as the government broke the promise of compensation that comes with a promissory note." Similarly, Chief economist of the World Bank Kaushik Basu expressed, "Demonetisation was ostensibly implemented to combat corruption, terrorism financing and inflation." Many other experts, academicians and researchers supported this step which included the economist and former Indian representative to the IMF Arvind Virmani according to him, "Demonetisation is a useful method of flushing out black money." Mr. Arun Kumar (Retired professor of economics, JNU, New Delhi and author of Black economy in India) opined, "Demonetisation is a remedy for curbing black economy, but questions are asked about its effectiveness and its economic cost." Similar views were expressed by Mr. Kenneth Rogoff, author and professor of economics at Howard University, who opined, "Demonetisation is the bold and audacious move for a country with endemic corruption." Major relief for the government came from the noted industrialists who supported this step.

It can be understood that the decision regarding Demonetisation was a very difficult one and Prime Minister himself acknowledged the same when he appealed people to be prepared for the hardship during next 50 days. However, the findings of majority of the reports and studies published after the Demonetisation presented a very grim situation of and a dismal ground reality. According to many of the reports the economy received a heavy jolt and the agriculture and informal sector was virtually destroyed. However, none of these reports have any comprehensive support from ground reality as almost all of them are based on secondary information, media reports and sometimes on speculations based on stereotypical approaches

toward the issues. In light of this important gap, this study consulted people in target area and collected first hand information from them regarding the real impact of Demonetisation in their lives to achieve its objective which included;

- ❖ Finding out the factors behind the sudden launch of Demonetisation of high value currency notes by Government.
- ❖ Finding out the extent of reducing level of Inflation after launching of Demonetisation of high value currency notes.
- ❖ Finding out the level of consequences of Demonetisation on production and employment.
- ❖ And, to study on how far the Demonetisation increases the Digital Payment Mode to make more transparency.

Findings of the comprehensive literature review and analysis of secondary data from various sources, especially after the Demonetisation, suggest that economy has gone through sever jolt in terms of growth rate, employment loss, especially in informal sector, cash crunch for input of rabi crop along with the hardship experienced by common person. However, analysis of the secondary data reviled that in many sectors the earlier trends were reinforced after the Demonetisation. For example sales of automobile and collection of direct taxes were down before the announcement. Although, growth rate has gone down, employment; especially in informal sector has drastically reduced, the core sectors of economy including agriculture suffered a temporary jolt, however, evidences suggested that it brought down stone pelting in Kashmir, terrorism and naxal activities for some times and gave central government appropriate time to respond to these issues with comprehensive strategies. Many experts worried about the fact that negative impacts of Demonetisation may outrun the benefits.

Findings of the field survey suggested that majority of the people were in support of this step of government. However, it was found that rural areas reflected higher percentage of support for Demonetisation than the urban areas, especially in context of governments claim that it was an effective measure against corruption, black money and terrorism. The decision, according to major findings of the survey, was suddenly taken in order to startle the corrupt people and black money hoarders. Though majority of the respondents across rural and urban areas thought that it was an effective step towards curbing the black money and corruption, however, findings support this view that addressing the issue of black money would take longer time. People in both rural and urban areas had gone through some sort of discomfort due to Demonetisation and shortage of money during the time of need was a major form of

suffering, apart from the fact that farmers/producers could not sell their produces during shortage of cash in the market.

Survey further reflected that re-monetization with introduction of the new notes has helped recover the economy in desired timeframe. Majority of the people felt that introduction of Rs.2000 note was logical and they did not find significant problem in using Rs.2000 note in the market. It was revealed in the survey people still have very low level of awareness regarding online payment modes and related application. Though government campaign had brought some difference in this regard, however, it would take long time to achieve the objectives of digitization in the country. Demonetisation had some impact on people's savings and expenditure, especially in context of their household's expenditure. It was found that there was significant impact on the individuals' employment status of respondents, however, this impact was felt more in urban areas than in rural areas. Furthermore, it was revealed that Demonetisation impacted the sale of produce due to sluggish market. It was expressed by the majority of the respondents that it would take at least a year or two to completely normalize the situation.

5.1. Policy Implications

The insights developed after comprehensive literature review, analysis of secondary data after Demonetisation and field survey have put forward few issues regarding addressing black money and corruption, digitalization and formalization of the economy. Important points are enumerated below;

- i. Demonetisation was not an appropriate response to the black money issue, Government simplify tax and administration systems to address it. The answer to black money problem was to simplify our tax, land registration and the administration systems. That was the only way in which the country could move forward in a society where there were fewer roles for black money generation.
- ii. Demonetisation is only one and a temporary measure to address the issues of black money and corruption, therefore a comprehensive programmed in this regard would be required in which participation of common people should be at the central state.
- iii. Indian economy is still informal in nature as 93% of the economic activities take place in the informally in which supply of cash play important role. Therefore, need to eliminate

black money and corruption should be evaluated in the context of the potential suffering of the people due such steps in the future.

- iv. Although it can be understood that the ‘element of suddenness’ was the key strategy behind this step to startle black money hoarders and corrupt people, however, delays in re-monetization and calibration of ATMs suggested that there was some gaps at government side which caused enormous pain to common people. Such technical issues should be envisioned in any future step of similar nature.
- v. Although Jan Dhan Yojna is a great achievement of government and there is clear trend that at least some section of the people, especially in urban areas, are using digital mode of transactions for goods and services, however, India is still a rural nation where people have comparatively low level of awareness on key issues. Furthermore, there are patches in states like Uttar Pradesh which can be termed as ‘media dark’ due to lack of appropriate electricity supply and poor infrastructure. Such areas and their issues form barriers in government campaigns, e.g., campaign on digitization, BHIM App, etc. Therefore a balance view regarding the pace of digitization should be adopted in any such drive in future.
- vi. Digitization requires availability of appropriate infrastructure and a conducive environment especially in context of internet and mobile services. Indian still has very poor speed and irresponsible service providers. Furthermore, people still lack the trust on banking and credit card related agencies. In such a situation rapid digitization of the economy is not possible.
- vii. India still lacks the cyber security strategy and related institutional framework. Indian police is still at nascent stage in terms of their capabilities to deal with cyber crime. There is loads of credit cards related frauds reported from all over the country. In such a situation where most advance nations are vulnerable against organized cyber criminal, putting uneducated and poorly supported Indian masses into the realm of insecure digital world needs a rethinking. Stress should be given to take appropriate cyber security measures at required level before pushing the masses towards digitization.

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APPENDIX

Schedule for social Responses on Recent Demonetisation

Dear sir/Madam,

I am a Research Scholar from Baba Saheb Bhimrao Amedkar (BBAU) Central University, Lucknow.

I am preparing Research Dissertation for my M.Phil degree on “**Short term Economic Impact of Recent Demonetisation on Rural and Urban Regions: A step toward Less-cash Economy, “A case study of Lucknow District of Uttar Pradesh”.**

For this, I have designed Schedule to know your view and satisfaction level on recent Demonetisation. The information provided by you will only be used for academic purpose and will be treated with utmost confidentiality and will not be used otherwise. Please fill the given form as per your opinion and experiences with this. I will be thankful to you for this.

Area:

Sl.

No.

.....

Section 1: General Characteristics:-	
District	
Block	
Ward/ Village	
Name of respondent	
Contact no.	
Age	
Gender	
Education	
Religion	1. Hindu <input type="checkbox"/> 2. Muslim <input type="checkbox"/> 2. Christian <input type="checkbox"/> 4. Others <input type="checkbox"/>
Social category (Please tick the relevant group)	1. General <input type="checkbox"/> 2. OBC <input type="checkbox"/> 3. SC <input type="checkbox"/> 4. ST <input type="checkbox"/>

Main occupation of the household	1. Agriculture, 2. Regular salary group 3.Labour (both agriculture/ non-agriculture) 4. Chapman/Grocer, 5. Service/job in Govt. sector, 6. Service/job in Private sector, 7.self employed, 8. Businessman 9. Small producer, 10. Small business, 11.Entrepreneur, 12. Housewife, 13. Student, 14.Unemployed, 15. Other (please specify.....)
Supplementary occupations	
Monthly Income	
Monthly Expenditure	
Income during Demonetisation	
Expenditure during Demonetisation	

Section 2: General Perception about Demonetisation

1. Does corruption adversely affect growth?

1. Yes 2. No 3. May be, Can't say

2. Do you think Demonetisation is great decision in right direction?

1. Yes, it is 2.No
3. May be, I am not sure 4. Can't say

3. Why according to you are the major reasons behind this step?

1. Corruption 2. Black money
3. Terrorism 4. Others (specify)

4. What according to you are the major reasons behind the sudden announcement of Demonetisation?

1. It was a well planned step 2. To startle corrupt money people
3. I can't say anything 4. Others (specify)

5. Do you think Demonetisation will help curbing black money, corruption, and terrorism?

1. Yes 2. No

3. Remain unchanged

4. Can't say

Section 3: Move towards digital payments and cashless transactions

1. Do have Bank Account?

1. Yes

2. No

If yes, which type of have you account.

1. Saving account

2. Current account

3. Post office account

4. Jan Dhan yojna

In which bank have you accounted.

1. PSU's bank

2. RRB's bank

3. Post office

4. Private bank

3. How much are you aware regarding online payment mode.

1. Highly, I'm using

2. Medium people around me used

3. Low, I'm not used

4. Other (specify)

4. According to you, what are the major products or services for which people often use online payment?
(More than one option can be selected).

1. Railways/air ticket booking

2. Mobile/DTH recharge

3. Online shopping

4. Online payment for essential service
(i.e., electricity/water bill, school fee etc.)

5. What is the level of your awareness regarding popular online payment App (paytm, mobile pay etc?)

1. Yes, I'm user

2. Medium, people around me using

3. Low, Don't have appropriate

4. No, I'm not user

6. Are you aware of any government advertisement promotion cashless transaction?

1. Yes

2.No

If yes, then specify where did you get this information?

1. T.V advertisement

2. Newspaper

3. Radio

4 Others

9. Do you know Bhima App?

1. Yes

2. No

10. Have you used online payment mode during the period of Demonetisation?

1. Yes

2. No

If yes please specify. (.....)

If no, then what according to you are the major reasons for not using online payment option?

1. Lack of appropriate knowledge

2. It is still risk

3. Banks and other related institutions have been irresponsible towards clients support.

4. Other (specify)

11. Have you used online payment option for any product of services after getting information from government advertisement after Demonetisation?

1. Yes

2. No

14. Do you think people would be motivated towards cashless transactions after going through government advertisement regarding this?

1. Yes

2. No

Section 4: Economic Consequences Of Demonetisation:-

1. Did you have faced inconvenienced during Demonetisation period?

1. Yes

2. No

If yes, then how much:

Highly affected

Medium affected

marginally affected

2. Demonetisation really affects your expenditure?

1. Yes

2. No

If yes, If yes, then how much:

Highly affected

Medium affected

marginally affected

3. Did Demonetisation highly impacted on your employment status?

1. Yes, I lost my job

2. Yes, Marginally

3. Not actually

4. No impact

4. Has Demonetisation impacted the employment status of your family members and friends?

1. Yes

2. No

5. Has Demonetisation impacted your family's main source of livelihood?

1. Yes

2. No

6. During Demonetisation your saving was affected?

1. Yes

2. No

7. What are the impact of Demonetisation on the prices of day to day essential goods and services?

1. Prices go high

2. Prices go down

3. Remain unchanged

4. Can't say anything

8. What are the major forms of this impact? (More than one option can be selected)

1. Reduced working days due to low demand

2. Lost job

3. Unable to sell/produced product

4. Unable to investment

9. Has Demonetisation also impacted the families of your friends and relatives in same manner?

1. Yes

2. No

10. How long do you think it would take to normalize the situation regarding livelihood and employment of people?

1. Recovered the situation

2. Short time (less than 1 year)

3. Medium (1to2 years)

4. Long time (over 2years)

Thank you so much for your time and valuable information.

Ward/ Village

	Frequency	Percent	Valid Percent	Cumulative Percent
Kathwara	30	25.0	25.0	25.0
Kumrahwa	30	25.0	25.0	50.0
Industrial Area (Talkatora)	30	25.0	25.0	75.0
Akabari Gate (Chowk)	30	25.0	25.0	100.0
Total	120	100.0	100.0	

Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	102	85.0	85.0	85.0
Female	18	15.0	15.0	100.0
Total	120	100.0	100.0	

Education

	Frequency	Percent	Valid Percent	Cumulative Percent
Illiterate	4	3.3	3.3	3.3
Pre Schooling	1	.8	.8	4.2
Primary	13	10.8	10.8	15.0
Upper Primary	17	14.2	14.2	29.2
High School	16	13.3	13.3	42.5
Intermediate	16	13.3	13.3	55.8
Diploma/Certificate	2	1.7	1.7	57.5
Graduate	31	25.8	25.8	83.3
Post Graduate and above	16	13.3	13.3	96.7
Professional (Law, Medical, Engineering)	4	3.3	3.3	100.0
Total	120	100.0	100.0	

Religion

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Hindu	94	78.3	78.3	78.3
Muslim	24	20.0	20.0	98.3
Others	2	1.7	1.7	100.0
Total	120	100.0	100.0	

Social category

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid General	52	43.3	43.3	43.3
OBC	41	34.2	34.2	77.5
SC	27	22.5	22.5	100.0
Total	120	100.0	100.0	

Main occupation of the household

	Frequency	Percent	Valid Percent	Cumulative Percent
Agriculture	15	12.5	12.5	12.5
Regular Salary Group	21	17.5	17.5	30.0
Labour(both Agriculture/ Non-Agriculture)	6	5.0	5.0	35.0
Chapman/Grocer	7	5.8	5.8	40.8
Service/ Job in Govt. Sector	11	9.2	9.2	50.0
Service/Job in Pvt. Sector	15	12.5	12.5	62.5
Valid Self Employed	13	10.8	10.8	73.3
Businessman	11	9.2	9.2	82.5
Small Producer	7	5.8	5.8	88.3
Small Businessman	7	5.8	5.8	94.2
Entrepreneur	4	3.3	3.3	97.5
House Wife	2	1.7	1.7	99.2
Doctor	1	.8	.8	100.0
Total	120	100.0	100.0	

Supplementary occupations

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid				
No supplementary occupation	107	89.2	89.2	89.2
Agriculture	9	7.5	7.5	96.7
Chapman/Grocer	1	.8	.8	97.5
Small Businessman	1	.8	.8	98.3
Doctor	2	1.7	1.7	100.0
Total	120	100.0	100.0	

Montly income slab

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid				
Up to 5000	26	21.7	21.7	21.7
5000 to 10000	25	20.8	20.8	42.5
10000 to 20000	28	23.3	23.3	65.8
20000 to 30000	15	12.5	12.5	78.3
More than 30000	26	21.7	21.7	100.0
Total	120	100.0	100.0	

Montly expenditure slab

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid				
Up to 5000	32	26.7	26.7	26.7
5000 to 10000	24	20.0	20.0	46.7
10000 to 20000	28	23.3	23.3	70.0
20000 to 30000	17	14.2	14.2	84.2
More than 30000	19	15.8	15.8	100.0
Total	120	100.0	100.0	

2.3. Why according to you are the major reasons behind this step?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Corruption	49	40.8	40.8	40.8
Black money	57	47.5	47.5	88.3
Terrorism	3	2.5	2.5	90.8
Others	11	9.2	9.2	100.0
Total	120	100.0	100.0	

2.5. Do you think Demonetisation will help curbing black money, corruption, and terrorism?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	67	55.8	55.8	55.8
No	53	44.2	44.2	100.0
Total	120	100.0	100.0	

2.6. What do you think of the government efforts against corruption so far?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Outstanding	18	15.0	15.0	15.0
Good	54	45.0	45.0	60.0
Useless	47	39.2	39.2	99.2
Can't say	1	.8	.8	100.0
Total	120	100.0	100.0	

2.7. Demonetisation helped to destroys Black money in India.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	53	44.2	44.2	44.2
No	63	52.5	52.5	96.7
Can't say	4	3.3	3.3	100.0
Total	120	100.0	100.0	

2.8. Did Demonetisation reduce corruption?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	54	45.0	45.0	45.0
No	62	51.7	51.7	96.7
Can't say	4	3.3	3.3	100.0
Total	120	100.0	100.0	

2.9. Demonetisation is the successful attempt to fight corruption.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	55	45.8	45.8	45.8
No	58	48.3	48.3	94.2
May be, Can't say	7	5.8	5.8	100.0
Total	120	100.0	100.0	

2.10. What according to you is the level of people's suffering due to Demonetisation?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid High	52	43.3	43.3	43.3
Medium	49	40.8	40.8	84.2
Low	14	11.7	11.7	95.8
No suffering for majority	5	4.2	4.2	100.0
Total	120	100.0	100.0	

2.11. What are the major form people's sufferings due to Demonetisation?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Standing in bank's/ ATM's queue	43	35.8	35.8	35.8
Losing employment/ Livelihood	32	26.7	26.7	62.5
No cash during time of	44	36.7	36.7	99.2
Others	1	.8	.8	100.0
Total	120	100.0	100.0	

2.12. Which section of the society has been hit hard due to Demonetisation?

	Frequency	Percent	Valid Percent	Cumulative Percent
Poor and Labor	26	21.7	21.7	21.7
Private employees/ producer	29	24.2	24.2	45.8
Valid Self employed	25	20.8	20.8	66.7
Corrupt/ black money holders	40	33.3	33.3	100.0
Total	120	100.0	100.0	

4.1. Did you have faced inconvenienced during Demonetisation period?

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	95	79.2	79.2	79.2
Valid No	25	20.8	20.8	100.0
Total	120	100.0	100.0	

4.1.1.If yes, then how much:

	Frequency	Percent	Valid Percent	Cumulative Percent
Con't Say	25	20.8	20.8	20.8
Highly affected	40	33.3	33.3	54.2
Valid Medium affected	26	21.7	21.7	75.8
Marginally affected	29	24.2	24.2	100.0
Total	120	100.0	100.0	

4.2. Demonetisation really affects your expenditure?

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	90	75.0	75.0	75.0
Valid No	30	25.0	25.0	100.0
Total	120	100.0	100.0	

4.2.1.If yes, If yes, then how much:

	Frequency	Percent	Valid Percent	Cumulative Percent	
Valid	Con't Say	30	25.0	25.0	25.0
	Highly affected	41	34.2	34.2	59.2
	Medium affected	22	18.3	18.3	77.5
	Marginally affected	27	22.5	22.5	100.0
	Total	120	100.0	100.0	

4.3. Did Demonetisation highly impacted on your employment status?

	Frequency	Percent	Valid Percent	Cumulative Percent	
Valid	Yes, lost my job	20	16.7	16.7	16.7
	Yes, Marginally	38	31.7	31.7	48.3
	Not actually	25	20.8	20.8	69.2
	No Impact	37	30.8	30.8	100.0
	Total	120	100.0	100.0	

4.6. During Demonetisation your saving was affected?

	Frequency	Percent	Valid Percent	Cumulative Percent	
Valid	Yes	58	48.3	48.3	48.3
	No	62	51.7	51.7	100.0
	Total	120	100.0	100.0	

4.8. What are the major forms of this impact?1. Reduced working days due to low demand

	Frequency	Percent	Valid Percent	Cumulative Percent	
Valid	Not Responded	34	28.3	28.3	28.3
	Yes	86	71.7	71.7	100.0
	Total	120	100.0	100.0	

4.8. What are the major forms of this impact? 2.Lost job

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Not Responmnded	73	60.8	60.8	60.8
Valid Yes	47	39.2	39.2	100.0
Total	120	100.0	100.0	

4.8. What are the major forms of this impact? 3. Unable to sell/produced product

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Not Responded	49	40.8	40.8	40.8
Valid Yes	71	59.2	59.2	100.0
Total	120	100.0	100.0	

4.8. What are the major forms of this impact? 4.4. Unable to investment

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Not Responded	87	72.5	72.5	72.5
Valid Yes	33	27.5	27.5	100.0
Total	120	100.0	100.0	

4.9. Has Demonetisation also impacted the families of your friends and relatives in same manner?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	66	55.0	55.0	55.0
Valid No	54	45.0	45.0	100.0
Total	120	100.0	100.0	

4.10. How long do you think it would take to normalize the situation regarding livelihood and employment of people?

	Frequency	Percent	Valid Percent	Cumulative Percent
Recovered the situation	4	3.3	3.3	3.3
Valid Short Time (Less than one year)	21	17.5	17.5	20.8
Medium (one to two years)	73	60.8	60.8	81.7
Long Time (Over two Years)	22	18.3	18.3	100.0
Total	120	100.0	100.0	

Relationship between education towards digital payments and cashless transactions

		Education
3.1. Do have Bank Account?	Pearson Correlation	0.440 ^{**}
	Sig. (2-tailed)	.000
	N	120
3.3. How much are you aware regarding online payment mode.	Pearson Correlation	0.527 ^{**}
	Sig. (2-tailed)	.000
	N	120
3.4. According to you, availed service for -Railways/air ticket booking	Pearson Correlation	0.225 [*]
	Sig. (2-tailed)	.013
	N	120
3.5. What is the level of your awareness regarding popular online payment App	Pearson Correlation	0.432 ^{**}
	Sig. (2-tailed)	.000
	N	120
3.6. Are you aware of any government advertisement promotion cashless transaction?	Pearson Correlation	0.357 ^{**}
	Sig. (2-tailed)	.000
	N	120
3.9. Do you know Bhima App?	Pearson Correlation	0.456 ^{**}
	Sig. (2-tailed)	.000
	N	120
3.10. Have you used online payment mode during the period of Demonetisation?	Pearson Correlation	0.299 ^{**}
	Sig. (2-tailed)	.001
	N	120
3.11. Have you used online payment option for any product of services after getting information from government advertisement after Demonetisation?	Pearson Correlation	0.376 ^{**}
	Sig. (2-tailed)	.000
	N	120
3.14. Do you think people would be motivated towards cashless transactions after going through government advertisement regarding this?	Pearson Correlation	0.385 ^{**}
	Sig. (2-tailed)	.000
	N	120

Correlation is significant at the 0.01 level (2-tailed).^{**}

Correlation is significant at the 0.05 level (2-tailed).^{*}

Government of India
Ministry of Finance
Department of Economic Affairs

Press Release

With a view to curbing financing of terrorism through the proceeds of Fake Indian Currency Notes (FICN) and use of such funds for subversive activities such as espionage, smuggling of arms, drugs and other contrabands into India, and for eliminating Black Money which casts a long shadow of parallel economy on our real economy, it has been decided to cancel the legal tender character of the High Denomination bank notes of Rs.500 and Rs.1000 denominations issued by RBI till now. This will take effect from the expiry of the 8th November, 2016.

2. Fake Indian Currency Notes (FICN) in circulation in these denominations are comparatively larger as compared to those in other denominations. For a common person, the fake notes look similar to genuine notes. Use of FICN facilitates financing of terrorism and drug trafficking. Use of high denomination notes for storage of unaccounted wealth has been evident from cash recoveries made by law enforcement agencies from time to time. High denomination notes are known to facilitate generation of black money. In this connection, it may be noted that while the total number of bank notes in circulation rose by 40% between 2011 and 2016, the increase in number of notes of Rs.500/- denomination was 76% and for Rs.1,000/- denomination was 109% during this period. New Series bank notes of Rs.500/- and Rs.2,000/- denominations will be introduced for circulation from 10th November, 2016. Infusion of Rs.2,000/- bank notes will be monitored and regulated by RBI. Introduction of new series of banknotes which will be distinctly different from the current ones in terms of look, design, size and colour has been planned.

3. The World Bank in July, 2010 estimated the size of the shadow economy for India at 20.7% of the GDP in 1999 and rising to 23.2% in 2007. There are similar estimates made by other Indian and international agencies. A parallel shadow economy corrodes and eats into the vitals of the country's economy. It generates inflation which adversely affects the poor and the middle classes more than others. It deprives Government of its legitimate revenues which could have been otherwise used for welfare and development activities.

4. In the last two years, the Government has taken a number of steps to curb the menace of black money in the economy including setting up of a Special Investigation Team (SIT); enacting a law regarding undisclosed foreign income and assets; amending the Double Taxation Avoidance Agreement between India and Mauritius and India and Cyprus; reaching an understanding with Switzerland for getting information on Bank accounts held by Indians with HSBC; encouraging the use of non-cash and digital payments; amending the Benami Transactions Act; and implementing the Income Declaration Scheme 2016.

5. In order to implement the above decisions of the Government and keeping in view the need to minimise inconvenience to the public, the following operational guidelines have been issued:-

- (i) Old High Denomination Bank Notes may be deposited by individuals/persons into their bank accounts and/or exchanged in bank branches or Issue Offices of RBI till the close of business hours on 30th December, 2016.
- (ii) Old High Denomination Bank Notes of aggregate value of Rs.4,000/- only or below held by a person can be exchanged by him/her at any bank branch or Issue Office of Reserve Bank of India for any denomination of bank notes having legal tender character, provided a Requisition Slip as per format to be specified by RBI is presented with proof of identity and along with the Old High Denomination Bank Notes. Similar facilities will also be made available in Post Offices.
- (iii) The limit of Rs.4,000/- for exchanging Old High Denomination Bank Notes at bank branches or at issue offices of Reserve Bank of India will be reviewed after 15 days and appropriate notification issued, as may be necessary.
- (iv) There will not be any limit on the quantity or value of Old High Denomination Bank Notes to be credited to the account of the tenderer maintained with the bank, where the Old High Denomination Bank Notes are tendered. However, in accounts where compliance with extant Know Your Customer (KYC) norms is not complete, a maximum value of Rs.50,000/- of Old High Denomination Bank Notes can be deposited.
- (v) The equivalent value of the Old High Denomination Bank Notes tendered can be credited to an account maintained by the tenderer at any bank in accordance with standard banking procedure and on production of valid proof of Identity.
- (vi) The equivalent value of the Old High Denomination Bank Notes tendered can be credited to a third party account, provided specific authorisation therefor accorded by the said account holder is presented to the bank, following standard banking procedure and on production of valid proof of Identity of the person actually tendering.

- (vii) Cash withdrawal from a bank account, over the counter will be restricted to Rs.10,000/- subject to an overall limit of Rs. 20,000/- in a week for the first fortnight, i.e., until the end of business hours on November 24, 2016.
- (viii) There will be no restriction on the use of any non-cash method of operating the account which will include cheques, demand drafts, credit/debit cards, mobile wallets and electronic fund transfer mechanisms.
- (ix) Withdrawal from ATMs would be restricted to Rs.2,000 per day per card up to November 18, 2016. The limit will be raised to Rs.4,000 per day per card from November 19, 2016 onwards.
- (x) For those who are unable to exchange their Old High Denomination Bank Notes or deposit the same in their bank accounts on or before December 30, 2016, an opportunity will be given to them to do so at specified offices of the RBI on later dates along with necessary documentation as may be specified by the Reserve Bank of India.
- (xi) Instruction is also being issued for closure of banks and Government Treasuries, on 9th November, 2016.
- (xii) In addition, all ATMs, Cash Deposit Machines, Cash Recyclers and any other machine used for receipt and payment of cash will remain shut on 9th and 10th November, 2016.
- (xiii) The bank branches and Government Treasuries will function from 10th November, 2016.
- (xiv) To avoid inconvenience to the public for the first 72 Hours, Old High Denomination Bank Notes will continue to be accepted at Government Hospitals and pharmacies in these hospitals/Railway ticketing counters/ticket counters of Government/Public Sector Undertaking buses and airline ticketing counters at airports; for purchases at consumer co-operative societies, at milk booths, at crematoria/burial grounds, at petrol/diesel/gas stations of Public Sector Oil Marketing Companies and for arriving and departing passengers at international airports and for foreign tourists to exchange foreign currency at airports up to a specified amount.

6. The relevant Notifications are available in the website of Finance Ministry (<http://finmin.nic.in/>). Further details including Frequently Asked Questions (FAQs) are available on the website of the Reserve Bank of India (<https://www.rbi.org.in/>).