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*Special issue on*

**DEMONETIZATION AND DIGITAL ECONOMY**

**Edited by**

**R.S.N.Raju  
M.Bala Swamy**



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## Sectoral effects of Demonetization in short run

R.S.N.Raju, HOD of Commerce, SKBR PG College, Amalapuram, Andhra Pradesh

**Abstract:** The idea of demonetization is good but it has to be taken into consideration that most of the black money is kept in the form of land, buildings or gold or kept abroad. What is in cash constitutes only 4% of the total amount of black money on which taxes are not being paid. Out of this, a lot of money is in circulation in everyday transaction like if someone is building a house; the bill is not paid through banks for sand, bricks etc. This money goes into the other systems though it has been drawn from bank. Demonetization has caused widespread chaos in the nation, with people (mostly lower strata) facing sudden cash shortage, long queues accumulating in front of Banks and ATMs. It has also been argued that this demonetization strategy will have no significant effect on curbing black money, because of two reasons: firstly, most of the black money is deposited in foreign banks and is not in Indian currency, secondly even in India, a bigger chunk of the black money is not kept in liquid form, but as Gold. Now, both of these are true to much extent but to focus only upon these will not show a correct picture of the impact of demonetization. In November, everyone appreciated the ban, then some started arguing and now everyone is struggling. It is more like the hypocrite in us speaking this. Based on the facts, this paper focused on problems of demonetization, and impact of demonetization on common man.

**Key words:** demonetization strategy, terrorism, hypocrite

### Introduction:

The government is working at various levels to reduce the dependence on cash. Even as ordinary citizens queue up for cash and economists are busy estimating the extent to which economic growth will be hit because of the ongoing drive to replace high-value banknotes, there has been a lot of discussion on whether the government can use the current situation to push India towards a cashless future. The government will have to create conditions—not necessarily by creating cash shortages—to push cashless transactions to a threshold level after which the network effect will take over. India may not become a cashless economy in the foreseeable future, but it needs to

reduce its unusually high dependence on cash to bring in much needed transparency and efficiency in the system.

The demonetization of Rs.500 and Rs.1000 banknotes of Mahatma Gandhi series was a policy ordained by Government of India on 8<sup>th</sup> Nov 2016. Immediately from the next day onwards i.e. from 9<sup>th</sup> Nov 2016 these notes were ceased to be legal tender in India. The announcement was made by Prime Minister Mr. Narendra Modi on 8<sup>th</sup> Nov 2016, in an unscheduled live television address at 20:15 (IST) and declared those currencies will be invalid and announced the issuance of new Rs.500 and Rs.2000 banknote for exchange of old currency.



Howbeit, the denominations of Rs.100, Rs.50, Rs.20, Rs.10 and Rs.5 of the series remained as legal tender and were unaffected by the decision. The Government claimed this decision was taken to stop counterfeiting of the current banknotes used to fund terrorism and as a fight against to reduce/ eradicate corruption, black money, drug menace and smuggling. As every coin has two sides it does have some problems along with its advantages. Here in this paper I'd like to focus on the impact of demonetization on common man and the troubles he faced because of demonetization.

#### **Importance of the study:**

The 500 and 1,000 rupee notes were the largest denomination of money, which made up for 14 lakh crores in circulation. Demonetization has a direct impact on sectors dealing with cash—vendors, auto rickshawwallahs, taxi drivers, daily wage earners and small traders. The Indian system mainly functions on cash, and so, less cash means disruption in the flow. Even sectors like real estate, which deal with illegal cash transactions, will go through a rough patch leading to fall in profits. Further, When money is deposited in the bank, one earns interest for the same. After the announcement of note ban, there have been huge cash deposits in banks. In fact, some of the leading public and private banks have reduced the interest rates on deposits. Depositors might get lesser interest on their deposits, but the good news is that it will have a long-term positive effect on the economy as the lending rate (interest rate on loan) will fall. This will boost credit and investment, to recover the slumping economy, with this backdrop,

the present study taken up for examine the impact of demonetization on common man. The study is basically conceptual in nature and for the purpose of the study; an extensive review of literature has been studied and identified the critical challenges facing the common man in India. The study has undertaken with the help of secondary sources of data and already published data like news papers, websites and different reports given by the government.

#### **Impact of demonetization**

##### **1. Hindrance to daily activities:**

From the day 1 of the policy enactment common man has faced the trouble of doing his daily economic activities as the old currency notes became invalid and the only way for exchange is through banks.

**2. Inconvenience for having exchange of old currency notes at petrol pumps and hospitals:** people had faced a lot of trouble to exchange the old currency notes. Even though the government had said that the notes will be accepted at petrol pumps and hospitals they have rejected for exchange in most cases and in some cases at petrol pumps the person has to buy petrol for some of the amount he wants to exchange it for.

**3. Inadequacy of supply of new currency notes even at banks and ATMs:** One has to wait for hours in the queues for exchanging of currency at banks and ATMs but they are unsure about procuring the new notes as the demand for exchange is more than the supply of new banknotes and in some cases there were deaths, attacks, agitations and sporadic violence at banks and ATMs.



**4. Transportation Halts:** After demonetization was announced, about eight lakhs, truck drivers were affected with scarcity of cash; with around four lakhs trucks stranded at major highways across India were reported. Even at major highway toll junctions the toll plazas have refused to accept old notes. Later government has extended support by announcing of suspension of toll collections on all national highways across India until 2<sup>nd</sup> December.

**5. Agriculture:** Business transactions in the agricultural sector are majorly on cash. Thus they were adversely affected by demonetization. Due to scarcity of new banknotes, many farmers have inadequate cash to purchase seeds, fertilizers and pesticides needed for plantation of rabi crops usually sown around mid- November. Farmers and their unions conducted protests against demonetization as well as against the restrictions imposed by RBI on DCCBs which were ordered not to accept or exchange demonetized banknotes.

**6. Business:** The blow of demonetization has affected small businesses and sole traders a lot. They have experienced the reduce of transaction at their business as the customers are in cash deficit and they cannot accept the old banknotes. This has also affected e-business units as they experience a decline in Cash on Delivery orders

**7. Investors:** Investors also experience the effect of demonetization. Many prospective investors had lost their investments in stock market crash.

**8. Rabi crop:** Sowing of rabi crop slowed down in the last week of November compared with a normal

season. According to a report by Edelweiss Securities, while 50 per cent of the rabi sowing has been completed, sowing activity remained slower than normal until November 25 because of the cash crunch in the economy. However, it was still 4.5 per cent higher on a year-on-year basis and 7.5 per cent lower than a normal sowing season. Last year, the sowing activity was impacted by low water reservoir levels. Market experts said the lower sowing of rabi crop could be attributed to demonetisation of Rs 500 and Rs 1,000 currency notes, which left the farmers short of cash. They are facing difficulty in buying seeds and fertiliser. However, the government has taken steps to ease the cash crunch at the rural level. It has allowed state-run distribution centres to accept old currency notes for agri-input purchases.

**9. Retail real estate:** Retailers could see some impact on their business in the short-to-medium term due to reduced cash transactions. The luxury segment is likely to be hit because of the historically high incidence of black money acceptance in this segment. However, credit / debit cards and e-Wallets should come to the rescue. Overall, the domestic consumption story remains intact, with no threat to the overall strength and growth of the Indian retail industry.

**Problems of demonetization:**

The demonetization of currency denomination was also made in the past. In January, 1946, denominations of 1,000 and 10,000 rupees were demonetized and new notes of 1,000, 5,000 and 10,000 were introduced in 1954 and again these notes were abolished by the coalition government on 16<sup>th</sup> January 1978 to curb counterfeit money and black money.



Now, after the announcement of demonetization many officials, politicians and presidents and prime ministers of different nations has praised Mr. Modi to take this initiative. Even though it is a good task, it does affect common man a lot and made him uncomfortable with this decision.

There are some other problems as with along the good things that,

- The scarcity of cash due to this policy has led to chaos and most people holding old bank notes, faced difficulties to exchange them by standing in the endless queue outside of banks and ATMs across India, and has become a daily routine for millions of people waiting to deposit old notes and to withdraw new banknotes from the day 1.

- ATMs and banks were running out of cash after a few hours of being functional and about half of the ATMs were non-functional.

- Even there are cases of violence, looting and deaths due to standing in queue to exchange old notes and lack of medical help due to refusal of accepting old currency notes by hospitals.

- the black money will reemerge as now paying bribes will be much easier with Rs.2000 notes.

- In fact, if the same government does not come to power again, then there may be the risk of reversal of some of these policies.

- Bribes may be paid in the form of gold, foreign currency or smaller denomination notes or through consumer durables.

- The whole plan may boomerang as there is a complete demand collapse and people lose their jobs in unorganized sector in the near term.

**Conclusion:** The demonetization announced by Prime Minister Modi was sudden, and came as a shock. People who were born after 1978 would not remember anything about the past demonetization, except for those who read the history, which was announced over All India Radio. Then, India was not digital enough. We did not have too many banks. But today, it is slightly a different story. The men and women who have cash in their hands as part of their idea of savings, accumulating cash for an emergency expense. A habit from the past without ATMs and Digital Banking. Do not see that habit changing, especially given the fact that money from ATMs is now limited and does not depend on your account. There are some obvious loopholes before and after demonetisation. Some of the most important of them are: 1. The usage of debit/credit card is not enforced by the government at least at the points of travel i.e. airports, railways, state road transports, and petrol bunk, govt. / semi govt. bodies to receive money. 3. The new currency of Rs. 2000 denomination was exchanged with the old demonetised Rs. 500 and Rs. 1000 in the midnight and the day after with the collusion of Bank managers and the officials of Post offices, Road Transport Corporations of State Governments, money receiving agencies of State Governments which can officially deposit all the demonetised notes, received unduly for exchange from by influential people like politicians and big business people, tuning to thousands/lakhs of crores of rupees which is evidenced by the new currency found in the recent raids conducted by IT department which is just a tip of iceberg of the whole fraudulence allowed by non-



planning/recklessness of the government.  
4. Farmers are now getting the money for the sale of their produce in their Bank accounts only; as such they have money but the Banks are not giving currency to them as there is severe crunch of currency. If the farmers can't get currency they could not go ahead for the next crop because they have to pay money to the menial labour in currency only, if not for fertilizers/pesticides. 5. Only a small percent of ATMs are functioning to make common people stand in long queus for long hours resulting in despair as ATMs will be out of money in just a few hours. As the saying goes, 'All is well if the end is well', it would be well for the intended intentions if prudent and practical solutions to alleviate the problems of common people are found and implemented by the government.

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## Effects of Demonetization on India Economy

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**Abstract:** No doubt, demonetization is dynamic step to make legal money as an illegal and to make it invalid. And the Prime Minister in his address has propounded two primary reasons for this decision. One was to check 'enemies' from across the border, using fake currency notes. The other was to break the grip of corruption and black money

**Key words:** Demonetization, currency notes, Black Money

### Introduction

Money is an idea that inspires confidence and it what is Money does. Introduction of Money Economy has all together revolutionised on Economic functioning. We have become so much dependent on money that we wonder how in the past, the economy, how so ever simple and primitive and self-sufficient could run without money. At this junction, Rohinton Mistry says that the black money is so much a part of our white economy a turnover in the centre of the brain try to remove it and you kill the patient. And to Control Black Money in India is a very difficult task mainly due to the poor implementation of laws which lead to sophisticated crime in the economy and thus generates black money. It leads to drastic negative effects like Corruption, exploitation, terrorism and extremism in India.

### Reasons for Demonetization

The main reason behind these things in India is circulation of high value currency notes. It occupies 86 per cent of currency notes being circulated in India, In this connection, The Prime Minister of India Sri Narendra Modi, has announced

demonetised the high value currency notes on 8th November 2016, which are in circulation, stand invalid and announced the issuance of new series notes instead of high value of old currency. No doubt, demonetization is dynamic step to make legal money as an illegal and to make it invalid. And the Prime Minister in his address has propounded two primary reasons for this decision. One was to check 'enemies' from across the border, using fake currency notes. The other was to break the grip of corruption and black money.

### Problem rose:

But the risk was arrived behind decision of the Prime Minister to render Rs.500, and Rs.1000 currencies as illegal seems to be that all cash is black money and all black money is in cash) it will effect on top 12 sectors of Indian Economy

### Effects on household sector:

More than 90 per cent of Indian work force still earns their wages in cash. These consist of Hundreds of Millions of Agriculture workers construction workers and so on. While the number of



Bank Branches in rural areas has nearly doubled since 2001, there are still more than 600 Million Indians who live in a rural or town with no Bank.

#### **Effect on demand:**

The demand for automobiles is likely to dip for a couple of months for two-wheelers, but passenger vehicles and tractors will be less impacted. In the two-wheeler Industry around 35 to 45% purchases are made via financing, while the rest are through banked cash, and the passenger vehicle segment, close to 75-80% of sales are either through financing or even down payments. As for tractors close to 65% of the purchases are financial, therefore the impact of cash squeeze could be minimum.

The Demand for cement companies is one tier and two tier cities has weak for the past 2-3 years which closed to 55-60 percent of overall demand.

The Demand for building materials stocks would come under pressure due to a sudden slowdown, which drives this sector, would get impacted as most of the demand is serviced through Cash.

The impact of Capital Goods Market won't be big largely due to the B2B nature of business. However, payment to sub-vendors may face some liquidity issues.

As directed by the Government, the high value currency notes which now cease to be legal tender are to be deposited or exchanged in banks is subject to certain limits. This will

automatically demand for more amounts deposited in Savings and Current Account of Commercial Banks. However to the extent that households have held on to these funds for emergency purposes, there would be withdrawals at the second stage.

The Demand for consumer staples or Jewellery business is moved to good for the organised industry. But in short term, it may impact the working capital in FMCG distribution, which is the liquidity shifted from unorganised to organised sector in the Jewellery industry.

The Demand for Non Banking Financial companies (NBFC) have also effected by the demonetization, especially the housing finance companies to see key impact on loan against property. They may be a slowdown as people may stop buying the second or third house, which effect developers.

The Demand for Telecommunications sector has been turned to slow down is smart phone sales could potentially slower adoption of mobile broad band subscriber penetration.

The Demand for Paint companies which are into big project sales, deal in cash component worth 30-40 percent of sales, white for shops which have higher retail sales, cash component could be 70-80 percent there fore, paint companies could face fall in sales in the short term.

Demonetization is not expected to have any major impact on the Indian pharma market and demand is not expected to get impacted is a big way.





How ever , luxury hospital may see some impact due to spending cuts.

### Conclusion:

Black money is a menace to our society that we need to estimate. In doing so, we have to be mindful of the potential impact on hundreds of millions of other honest citizens. The prime Minister Modi as rightly called the demonetization has 'Kadak Chai' (bitter pill). The high Demonetization notes (HDN) Promoted high bribery and helped terror funding through fake HDN'S cannot be disputed at all. Why the political ramifications are different story, one may view Mr. Modies push for cashless India as the culminations of the economic logic of liberalizations unleashed by Manmohan Singh in 1991. From this ideological vantage point, a rapped transaction to a cashless economy -even if it means not -so-subtle coercion - makes perefect sense.

While that Government is assuring the public that the current phase of 'in convenience' is but temporary, uncertainties abound about the time span it will take for the ordeal to end. In the meantime, the alternative sources of access to cash via informal channels of, say, the village money lender would naturally be on tougher terms.

Altogether, this government appears reluctant expand public capital even though it is in short supply in the economy. For every demonstration, India has higher cash to GDP ratio compared to the rest of the world. We can point to its lower level of public services not to mention human development compared to even some of our squeezing cash out of

the system is not based on any serious economic analysis of what the economy needs right now, Moreover, the prime Minister had come promising minimum government. In this vein, he should leave the decision on the use of cash to the market, as his government is happy to do in some other crucial instances. There is nothing to say that the honest citizen should leave her money with the bank rather than under the matters so long as she pays her taxes. The state must service for accountability always.

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## Demonetization- Digital and Cashless Economy

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**Abstract:** The argument posited in favour of demonetization 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, level of activity and government finances.

**Keywords:** demonetization, cashless transactions, credit, tax evasion JEL classification codes: H25, H27

### 1. Introduction

The government has implemented a major change in the economic environment by demonetizing the high value currency notes – of Rs 500 and Rs 1000 denomination. These ceased to be legal tender from the midnight of 8<sup>th</sup> of November 2016. People have been given upto December 30, 2016 to exchange the notes held by them.<sup>1</sup> The proposal by the government involves the elimination of these existing notes from circulation and a gradual replacement with a new set of notes. In the short term, it is intended that the cash in circulation would be substantially squeezed since there are limits placed on the amount that individuals can withdraw. In the months to come, this squeeze may be relaxed

somewhat. The reasons offered for demonetisation are two-fold: one, to control counterfeit notes that could be contributing to terrorism, in other words a national security concern and second, to undermine or eliminate the “black economy”. There are potentially two ways in which the pre-demonetization money supply will stand altered in the new regime: one, there would be agents in the economy who are holding cash which they cannot explain and hence they cannot deposit in the banking system. This part of the currency will be extinguished since it would not be replaced in any manner. Second, the government might choose to replace only a part of the currency which was in circulation as cash. In the other words, the rest would be available only as



electronic money. This could be a mechanism used to force a transition to cashless medium of exchange. The empirical extent of these two components will be unravelled only over the next six months. These two would have different effects on the economy in the short term and in the medium term, as will be explored below.

## **2. Short-term and medium-term impacts**

### **Very short-term impact**

The demonetisation, by removing 86 per cent of the currency in circulation, has resulted in a very severe contraction in money supply in the economy. This contraction, by wiping out cash balances in the economy, will eliminate a number of transactions for a while, since there is no or not enough of a medium of exchange available. Since income and consumption are intrinsically related to transactions in the economy, the above would mean a severe contraction in income and consumption in the economy. This effect would be more severe on individuals who earn incomes in cash and spend it in cash. To a lesser extent it would also affect individuals who earn incomes in non-cash forms but need to withdraw in cash for consumption purposes, since a number of sectors in the economy still work predominantly with cash.

In terms of the sectors in the economy, the sectors to be adversely affected are all those sectors where demand is usually backed by cash, especially those not within the organised retailing. For instance, transport services, *kirana*, fruits and vegetables and all other

perishables, would face compression in demand which is backed by purchasing power. This in turn can have two effects: while it is expected that supply exceeds demand, there would be a fall in prices, however, if supply too gets curtailed for want of a medium of exchange, prices might, in fact, rise. Thus, while generally people seem to expect prices to fall, it is quite possible that prices would instead rise.

Alternatively, to keep the flows going, people might take recourse to credit - both the retailers and other agents in the economy might make supplies on credit in the hope that when the liquidity status is corrected, the payments can be realised. In these cases, the price of commodities might rise instead of falling. In other words, the impact of an incremental reduction in money supply where the demand and the supply chain remain unaffected would be different from a case where there is a drastic reduction in money supply and outputs might adjust rather than the adjustment being in prices. In other words, the expectation that inflation would decline might be belied.

A further impact would be a compression of the demand for non-essentials by all the agents in the economy in the face of uncertainty in the availability of cash. The demand from segments which have access to digital medium of exchange would remain unaffected, but that from the rest of the economy would get compressed. This would transmit the effect to the rest of the sectors in the economy as well.



Another sector where one expects to see effects in the very short run is the real estate space. With contraction in demand from one set of agents – say agents who have earned unaccounted incomes and placed them within the real estate space – either prices within this segment would fall or transactions would cease to happen. While of itself, this would be considered a positive development and evidence of a correction in the unaccounted incomes, it could lead to a compression in investments in the construction sector which can have adverse income and employment consequences for the economy. There are likely to be two spin-offs from this change – one, there would be some increase in tax collections in the short term, and second; various IOUs could emerge as currency substitutes. To the extent people attempt to get rid of unaccounted cash balances through purchase of goods and services and/or payment of property taxes, one should witness a spurt in tax collections in indirect taxes as well as property tax in the month after demonetisation which would disappear thereafter. There is evidence already that property tax collections in some cities are higher than last year. Similarly, in the case of currency substitutes, at MCD tax collection centres at the border, people are being given IOUs in lieu of the balance they were entitled to, which would be valid for six months.

**Short-term effect with complete replacement:** The short-term effect on the economy would depend on the speed with which and the extent to which the cash is replaced by the authorities. If the entire cash is replaced within a short

duration of time, the effects beyond the very short term of 1-2 months might be little. But a few sectors are likely to be seriously affected. To give an example from two sectors which are supposed to have large employment effect on the economy, we can talk about agriculture, automobiles and construction. This is the sowing season for the Rabi crop in some parts of the country and the harvesting season for the Kharif crop. Most of the purchases and sales in this segment of the economy are carried out through cash. With the elimination of cash from the economy, sale of kharif crop would be difficult unless the crop is sold on the promise of payment in future. Given the limited bargaining power of the farmer, the price they can realise for the crop can be adversely affected. On the other hand, in the sowing activity, people would not get access to the inputs required since most of the inputs are now purchased from the market unless they seek access to credit from the supplier. In other words, with demonetisation, there would be a significant strengthening of the informal sector credit market in the rural economy. Further, if there are agents who do not get access to credit from the informal sector agents, their sowing activity and hence their incomes in the next season would be adversely affected. Thus, in spite of a good monsoon in large parts of the country, the farmer might not get the benefits.

The second sector which could be adversely affected would be the construction sector. The sector, it is often argued, works with a significant amount of cash. Payments to workers as well as a variety of purchases might be carried out in cash. So, on the supply side, this sector can be adversely



affected. On the other hand, on the demand side, the demand for houses and buildings would appear as a demand for non-essentials and might be pushed on to the back burner until the economic situation normalises. Thus, to the extent there are agents in the economy whose demand was backed by savings from unaccounted incomes held in the form of cash which got extinguished on demonetisation, there would be a compression of demand.

#### **Short-term effect with incomplete replacement:**

If, on the other hand, the authorities choose to replace only a fraction of the total cash that was surrendered by the people to the banking sector, then one would witness some other changes/effects in the economy. For transactions to be restored to the pre-change level, a number of agents who are using cash as a medium of exchange have to move to using digital versions of money as the medium of exchange. While this change is gradually happening in the economy, if it is forced by making cash inaccessible, the compression in demand as well as in income generation in the economy would continue for a longer period until people get familiar with the functioning and use of these media.

**Medium-term effects:** In the medium term, the effects would be related to the extent to which the currency is not replaced within the economy. If the entire currency is replaced, there would not be any major effects on the economy. However, it is to be expected that the entire currency would not be replaced – to the extent currency is extinguished

and to the extent some of the currency remains as bank deposits, there would be some impact on the economy. The first effect would be a compression of the economy to the extent the extinguished currency was working as a medium of exchange. The currency that is placed in the banks but not withdrawn, it is argued, would generate an expansion in deposits in the economy. In the discussions on demonetisation, there is a consistent reference to the resultant increase in credit creation in the economy. Like Finance Minister Arun Jaitley says, "Bank deposits will increase and they will have more capacity to support the economy."<sup>4</sup> The total cumulative credit that can potentially be generated is defined in terms of the reserve ratio. Total credit potential = incremental deposit generated\*(1/reserve ratio). In India, the cash reserve ratio is 4 per cent while there is a statutory liquidity ratio of 22 per cent<sup>5</sup>. In determining the credit creation, it is important to take into account only the CRR and the additional credit creation can be 25 times the amount of money deposited in the banks as a result of the proposed demonetisation.<sup>6</sup> This amount however, will be generated only if there exists an equivalent demand for credit in the economy.

Clearly, the additional deposits appear to be capable of stimulating a significant increase in the potential credit that can be created in the economy. All these changes imply some transitions for the consumers and the banking system and can have some serious implications for consumer behaviour and the macro-economy which are discussed below.



### 3. Transition Issues

There are a number of transition issues that need to be managed for this transition to be effective:

- **Infrastructure Issues:** There is need for a significant upgrade of the banking system as well as in the telecom infrastructure that would provide the backbone for digital transactions. For people to be able to transact at any time and place as well as for them to consider it a reliable medium of exchange, it is important that not only the banking system is upgraded to ensure that transactions can be completed without a hitch, but the supporting infrastructure too is up to the mark. For instance, in many parts of the economy, there is limited and intermittent supply of electricity as well as mobile connectivity. In these areas, it would be difficult to expect people to shift to electronic medium of exchange.

- **Consumer behaviour Issues:** Apart from the technological issues, there is a behavioural change that is being expected in people from using cash as a medium of exchange to using other cash substitutes both for making payments and receiving payments. This transition requires individuals to make two changes in their behaviour: one, agents need to move from tangible means which can be seen and felt to forms which are less tangible or not tangible, and second, they have to learn to rely on technologically advanced tools to undertake regular day to day operations. The latter requires agents to be educated to the extent of comprehending the content of

transactions. If this transition is not suitably managed, agents might be tempted to move to non-official cash substitutes.

- **Accessibility in language:** In addition to all of the above, most of the banks and the mobile instruments for transaction are currently adapted to a single to two languages. If the bulk of the population of this country needs to come on board, it might be important to make these facilities available in a myriad of Indian languages to ensure that the user can comprehend the transaction that they are entering into.

- **Transition issues for banking sector:** There are multiple issues here.

The banks too might have a transition issue to deal with. Banks would have a model of the fraction of deposits that they can safely lend without an excessive risk of withdrawal of the amount. This is important since, while banks can borrow money from the call money market, the costs of such borrowings can be large. These models, however, might need to be altered in the new regime since the character of the new deposits that come into the bank would be different from the pre-existing deposits. In the latter, while a fraction of the deposits would be for transactional purposes – e.g. salary earners – another fraction would be depositing only savings into the account. By eliminating high value currency notes, these agents who were operating through cash, would now have to move to non-cash instruments and hence, the



balances in their accounts would not be savings but transaction values which will be retained in the account for shorter durations of time. The banks therefore would need to re-model their decisions on how much of the deposits can be lent out and for what duration. It is, for instance possible, that a larger proportion of the deposits would be retained for short-term lending and can even be dedicated to the call money market.

Second, while 1/reserve ratio defines the potential maximum amount of credit that can be generated in the economy, the actual credit generation would be defined both by the demand for credit and the extent to which cash intervenes in the functioning of the economy. For instance, if people who receive credit from the bank make payments through cheques alone and they in turn make payments through cheques, then the potential credit creation can be realised. However, if on receipt of payment, the agent withdraws the money to cash and makes payments, only a fraction of the credit/deposit will return to the banking system. Thus, larger is the extent to which cash is used as a means of transacting, smaller is the total credit that can be generated. With a withdrawal of cash from circulation, the deposits will continue to remain in the bank, it would merely shift from account to account or from bank to bank. Thus, even on the earlier deposits, the amount of credit that can be generated would be larger. This is another reason why the banks would

need to remodel their investment decisions corresponding to a given level of deposits.

- A third issue that might arise as a transition issue is because of the mismatch between people's preferences for cash and the availability of cash. In the interim, until people adjust to the use of non-cash instruments, there would be an increased demand for the cash that is available and that might generate a situation where the agents have to pay a premium to access legal tender. In periods of scarcity of coins for instance, it is commonly known that people pay a premium to get the change. While this can be considered a transition issue, there are two different implications of such a development:

If the premium on cash is high, it would encourage both the shift to non-cash instruments on one hand, and to informal substitutes of cash on the other. This might undermine the confidence that people have in the currency and hence, encourage move to other currencies.

**4. Mode of payment and spending behaviour:** There is growing literature that points out to the possibility of changes in spending behaviour as a result of moving to instruments other than cash. There are many substitutes for cash in the modern economy ranging from cheques, debit cards, pre-paid cards, credit cards and mobile wallets. When compared to cash, these instruments differ in a number of key characteristics. Temporal separation or degree of



coupling is the extent to which a purchase and the payment for the transaction from resources are separated in time. If the two are de-coupled, people may not perceive a sense of separation from money at the time of incurring the expenditure and hence may overspend.<sup>8</sup> The second characteristic is related to the pain of payment flowing from salience. It is argued that people perceive the pain of payment depending on the tangibility or salience of the outflow.<sup>9</sup> A third feature is the stringency of budget constraint – while cash limits one's ability to spend to the amount of cash in hand, a debit card expands it to the balances available in the account and a credit card further relaxes it to include future earnings as well.

The characteristics identified of various forms of payments are summarised below as presented in Braga et al.(2013). We summarise the results of some of these studies which compare the behaviour of consumers using alternative instruments as follows:

- a. In a comparison of debit cards with cash, studies suggest that with the use of debit cards, the level of consumption tends to be higher.
- b. In a comparison of credit cards with cash, this effect is more pronounced.
- c. Credit cards often are associated with more spending resulting in an increase in debt as well
- d. Further, spending with cards seems to encourage spending on non-essentials.

These changes in consumer behaviour can have long-term consequences on the economy as well as on the budgets and lifestyles and priorities of agents in

the economy. It could, for instance, lead to a ballooning of consumer debt which in turn could push the financial system towards a crisis if not suitably managed. Further, if available debt in the economy is channeled towards consumer debt, while at the same time lowering saving in the economy, it could adversely affect the investment within the domestic economy.

## 5. Impact on Macro Variables

Apart from the transition issues faced by banks, in judging the impact on the economy, it is important to differentiate between the two changes that the demonetisation can bring about in money supply. The first change, i.e., cash being extinguished, to the extent it was being used as medium of exchange, would result in a compression in incomes, employment and consumption in the economy. On the other hand, the effect of the second change, i.e., cash being only partially replaced in the system would have the opposite effects of expansion in potential credit creation. The potential credit creation would translate into actual credit creation provided there is sufficient demand for credit. If the demand for credit in the economy is large enough, the potential credit can be realised. Of the credit created, other things remaining the same, it can be expected that at least a part of the credit, will be for productive purposes. This would mean expansion in investment in the economy and subsequently an increase in GDP and employment.

If there is increase in investment in the economy, the demand for capital goods rises. If output can expand in this sector,





there would be an expansion in the income generation and in demand for goods and services. Sectors that are not operating with excess capacity cannot meet the expanded demand with increased output, leading to increase in prices. This would hold for agriculture as well as any industry with long gestation lags to investment. In other words, in the short run there is a possibility of increase in inflation.

With increase in GDP, since imports are supposed to be related to the size of the economy, it is expected that imports will rise, but the same cannot be said about exports. In other words, the balance of trade could worsen. This could result in pressures on the rupee towards depreciation. Any increase in inflationary pressures too could augment these pressures.

MSME is one segment of the economy which is credit constrained<sup>15</sup>. Expansion in the potential credit in the economy could expand the credit available to this segment of the economy which is more employment intensive than the organised manufacturing. In other words, if the access to credit for this segment can be improved, it can generate many positive spin-offs. One reason why this segment might get better access to formal sector credit would be if all their transactions move to the digital format, thereby making available to the lending institutions evidence of credit worthiness. However, for this the transactions need to move digital before they can get access to credit. In other words, unless the banking sector is exploring more risky asset categories, they would not be the beneficiaries of the expansion in potential credit.

It should be kept in mind that credit is not the only constraint faced by the MSMEs. There is a cost of compliance with regulation in the formal sector both of tax legislation and other legislation which would increase the cost of operation. In the absence of economies of scale, after incurring all these costs, some of the MSMEs might not be viable in the new environment. In other words, the decision to

move from the informal sector to formal sector is a non-trivial decision for the units and merely changing the access to credit might not be adequate to alter the status quo. Under those circumstances, they might explore the use of alternative currencies as a means for survival.

It is, however, not correct to assume that expansion in credit will definitely materialise. In the last two years, the demand for credit in the economy has been sluggish at best. In comparison to a credit deposit ratio of 1.53 in 2011-12, the figures for 2014-15 were as low as 0.54. While there might be many factors that contributed to this outcome, what is of consequence is that the demonetisation has been introduced in this environment where demand for credit is rather low. A compression in demand in the economy would further depress the sentiment driving investments. In other words, demand for credit would continue to be low and the potential credit will not be realised immediately.

The first consequence of this would be a fall in the interest rates in the economy which could revive some of the sentiment since firms with outstanding debt would have lower interest liabilities and hence,



can see improved balance sheets. The compression in demand would mean a decline in imports while exports might not be adversely affected. This change in the balance of trade would induce an appreciation of the currency. Along with lower interest rates, this could result in inflow of investment by FIIs as well.

If the demand for credit is not very sensitive to interest rates – then the lower interest rates would not bring in sufficient demand and banks would need to explore alternative ways of placing the additional deposits available with them. This could mean that banks take in more risky assets potentially opening up the economy to more volatility and risks. This could include real estate, consumer credit and consumer credit cards. The housing loan bubble of the US economy might be one such example of lending to more risky projects, thereby bringing in more volatility into the system.

Two more extreme possibilities that might follow are: a loss in the confidence of the people in the official currency leading to bank run kind of situations if the current description of waiting for long hours for withdrawing money persists and the caps on withdrawal are not relaxed. Alternatively, they could shift to alternatives to currency. Second, there could be social unrest if the compression in incomes and consumption are severe and persistent.

**Alternatives to currency: would they evolve in the face of demonetisation?** A number of agents in the economy would be required to move from the informal sector to the formal sector. For these agents as well as for agents who have been operating

through the medium of cash and find the transition difficult, certain informal cash substitutes might emerge. For instance, even at present, there are coupons like the SODEXO coupons which are used for paying for certain purchases. These are accepted by a range of establishments in place of formal currency. It is, therefore, possible to see an expanded use of these coupons. The change might induce the generation of other tokens as substitutes for money as well - the agency collecting MCD's green tax has started issuing tokens in place of change. Similarly, for high value transactions one can think of bitcoins and other such crypto currencies on one side and foreign exchange on the other as a mechanism for settling transactions. Perhaps these would not take on a dimension large enough to challenge the official currency, but it can disturb the expectation that the unaccounted economy would be brought into the formal sector since there might exist alternatives to the formal currency. Here it is important to explore the possibility and acceptability of peer to peer payment instruments – a category which has been evolving in recent times.

#### **Effects on government finances:**

The effects of demonetisation on government finances can be divided into three categories: the impact through RBI's finances, the impact through taxes and the impact through credit available to finance deficits.

*Through RBI's finances:* The RBI earns seigniorage through the printing of currency. In the demonetisation, a part of the currency will be extinguished. For this part of the currency, the RBI can print the notes given the assets on its



books, but there would be no takers. In other words, this part of the currency would be like new money that can be introduced into the economy and hence yields seigniorage to the RBI once again when released into circulation. RBI, however, cannot lend this to the government since that would involve additional liability buildup on its balance sheet. So, this currency can only be released when foreign exchange is being converted to rupees for instance and not sterilised thereafter. At this point there would accrue some dividends to the government as well. However, to the extent the government and the RBI seek to move the economy towards digital instruments, this option might not be exercised and the dividend might not accrue.

**Impact through taxes:** There are multiple channels through which taxes will be affected:

□ At the point of transition to the new regime, people have attempted to convert cash balances into commodities like gold or luxuries. On these transactions the governments would have a spurt of taxes. This would however not last beyond the transition phase.

□ In the subsequent period, the impact on indirect taxes would be negative because of the compression in demand.

□ On property taxes, some local bodies have given people a window of opportunity to pay old as well as current taxes in the scrapped notes. This would result in an increase in revenue collections in property tax.<sup>16</sup>

□ On income tax there can be two potential effects: first, with compression in the economy, there could be a reduction in the tax collection. In the

unlikely event of people choosing to deposit unaccounted balances in the bank and pay taxes and penalty on the same, or if the tax department through investigation, finds that some of the deposits are not explained income tax collections would increase. For any individual depositing balances above Rs 10 lakhs, the tax and penalty together would absorb the over 90 per cent of the deposited amount. This would serve as a disincentive for people with large balances to come and deposit the same into accounts. In other words, the government cannot expect to get major collections in terms of the tax and penalty on unaccounted incomes revealed.

Through financing of fiscal deficit: The generation of additional deposits and credit, as a result of the SLR requirements can make more credit available to governments. Given the FRBM (Fiscal Responsibility and Budget Management) limitations, the amount of borrowing that governments can take on may be limited and the additional supply can mean a decline in the interest rate that governments pay on their debt. This could be a positive spin-off for the governments.

## 6. Conclusions

The demonetisation undertaken by the government is a large shock to the economy. The impact of the shock in the medium term is a function of how much of the currency will be replaced at the end of the replacement process and the extent to which currency in circulation is extinguished. It is likely that there would be a spurt in the banking deposits. While interpreting the phenomenon, however, one has to keep in mind that a



large part of their deposits were earlier used for transactional purposes. For example, if a small trader deposits 2 lakh Rupees in the Jan Dhan account since the currency in which he held these balances in for transactional purposes has been scrapped, it would be incorrect to interpret this as success of the programme in bringing in people who were hiding black money. Nor can they be interpreted as additional balances that the banking sector can lend out on the same basis as earlier deposits, since the deposits now would remain in accounts for much shorter periods than deposits based on savings would be.

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## Demonetization: Socio and Economic Dimensions in India

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**Abstract:** Demonitization is an act of stripping a unit of currency of its status as legal tender money. *Demonitization is imperative to evaluate 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 remonitise. This paper elucidates the impact of such a move on the availability of credit, spending, level of activity and government finances. Hence Demonitization shows rapid growth in digital economy.*

**Key words:** *Demonitization, digital economy, black Money*

The term demonetization has become a household name since the government pulled the old Rs 500 and 1000 notes out of circulation. While as per dictionary demonetization means "ending something (e.g gold or silver) that is no longer the legal tender of a country", one needs to see if there is anything more to the word. ET shares details of the word that has got all Indians worked up over the past three weeks.

Demonitization is an act of stripping a unit of currency of its status as legal tender money. The Govt of India as announced under the prime ministership Sri. Narendra Modi announced on 8<sup>th</sup> November 2016. That: the Notes of Rs. 500, Rs. 1000 will not be legal tender from 8<sup>th</sup> November 2016 and urged the people to join the mahayagna against. The ills of corruption black Money extremism and terrorism eating away the roots of economy of the nation.

**Reasons of Demonetization:** Reasons given by hon'ble prime minister in his addressed for nation are:

1. To tackle black money in the economy
2. To eliminate fake currency and Dodgi funds which have ban used by terror groups. To found terrorism in India
3. Lower the cash circulation in the country the broad concept of this demonetization is to collapse the parallel black economy this move of demonetization, it is thought, will definitely bring about the whole amount of transition to **no cash** or low cash kind of transactions.
4. The demonetization main aim is to kill the black money and counterfeit currency which is finding terrorist both within and outside borders of this great nation.

**Who need to worry about Demonetization:** The surprise move by



the Govt is a disaster for people who have accumulated lakhs and crores of unaccounted cash and the pillows and mattresses. The honest tax payers did not worry about any demonetization step now are never. The founder of Infosys Mr. Narayana Murthy and many of the economies welcome the Govt move in the fight against corruption and also added that " The dishonest will have to suffer, absolutely that is the right thing."

The present scenario speaks volumes about the extent of the black money, corruption counterfeit currency which is eating away the vitals of the economy. It is shame full that money of the politicians, industrialists are banking there black money in HSBC which is running in to lakhs of crores rupees which could not be broad back to Indian economy irrespective of the urban or rural black money is flowing much diversified proportion in the date to day transactions it can be particular seen in every trade commerce are real-estate business. By observation any 20% to 30% of white money is showed white money and the rest flowing as unaccounted/black money unless the fruits trade are commerce is not entire in to Govt chest in the form of taxes – CESS other forms of Govt revenue the intensity of the black money can be explained with a simple example how the real-estate business is tampering with the possible Govt revenues.

A transaction of 50 Lakhs worth is shown at Rs. 12,50,000/- in Govt Records at it remaining value there by Govt. is losing a lot of revenue and the rest of Rs. 37,50,000/- is flowing in the form of black money. The step of effected

should be curbed at same level other. The Govt of India under the dynamic leadership Sri. Narendra Modi has taken a daring step demonetizing Rs. 500, Rs. 1000 notes which is welcome by many people do it created some difficult is of shortage of cash supply for the common man.

It is surprise the common man in India who is accustomed for hegitation for small displeasures could comly bear the non-supply of currency even by standing for hours together at ATM Centers. This shows the acceptance of the common man for the drastic step taken by Sri. Narendra Modi. Inspite of the steps taken by Govt of India and RBI some of the unscrupulous business man, politician and Bank officials have tried to manipulate the system with their ulterior motives and persons gains and Govt and RBI is also digging at Unearthful black money and the Income Tax authorities are at it and we believe that certain stern actions will bring some change in their attitudes.

**Alternatives to currency :** A number of agents in the economy would be required to move from the informal sector to the formal sector. For these agents as well as for agents who have been operating through the medium of cash and find the transition difficult, certain informal cash substitutes might emerge. For instance, even at present, there are coupons like the SODEXO coupons which are used for paying for certain purchases. These are accepted by a range of establishments in place of formal currency. It is, therefore, possible to see an expanded use of these coupons. The change might induce the generation



of other tokens as substitutes for money as well -the agency collecting MCD's green tax has started issuing tokens in place of change. Similarly, for high value transactions one can think of bitcoins and other such crypto currencies on one side and foreign exchange on the other as a mechanism for settling transactions. Perhaps these would not take on a dimension large enough to challenge the official currency, but it can disturb the expectation that the unaccounted economy would be brought into the formal sector since there might exist alternatives to the formal currency. Here it is important to explore the possibility and acceptability of peer to peer payment instruments –a category which has been evolving in recent times.

**Conclusion:** We may have to say the following conclusions: The demonetisation undertaken by the government is a large shock to the economy. The impact of the shock in the medium term is a function of how much of the currency will be replaced at the end of the replacement process and the extent to which currency incirculation is extinguished. While it has been argued that the cash that would be extinguished would be "black money" and hence, should be rightfully extinguished to set right the perverse incentive structure in the economy, this argument is based on impressions rather than on facts. While the facts are not available to anybody, it would be foolhardy to argue that this is the only possibility.

1. Issue of High denomination notes Rs. 2000/-, Rs. 1000/- will definitely is a sourcing filling black money. Hence lower denomination notes more to be

released imposing for denomination of Rs. 2000/- Notes.

2. The Govt should encourage " No cash – Less Cash Transactions by imposing ban on cash transactions and the Govt should take necessary steps to encourage the use of POS machines or online transfers and electronic devices at all commercial centres so that cash transactions can be reduced.
3. The present demonetization is not an end itself all consequence steps should continue with the same spirit for curb corruption at all levels.
4. Imposing ban cash dealings 3 Lakhs above from 1<sup>st</sup> April 2017 is a nice step in the direction.

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## Impact of Demonetization on Indian Economy

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**Abstract:** The reason for this move was simple: India's Ministry of Finance claimed that 500 and 1,000 rupee notes are being used to finance terrorism, fund illegal drug sales, fuel the black market, drive counterfeiting, and pay bribes. This so-called "Black Money" had reputedly built up to such epic proportions that Prime Minister Modi declared that enough was enough, that he would take it upon himself to wash his country's currency supply in one fell swoop. Demonetization can be said as a "Surgical Strike" on Black Money, Terrorism, Fake Currency, Unorganized trading, Real Estate, Share market etc. on the other hand if we talk about the Indian Industry on a broader way it can be categorised in three parts Manufacturing sector, Service sector and Agriculture sector. After demonetization only Agriculture sector shows some positive improvement while if we talk about the manufacturing and service sector both were crashed down and these will affect the whole Indian market in 2017 also. As of December 28, official sources said that the Income Tax department detected over 4,172 crore of un-disclosed income and seized new notes worth 105 crore as part of its country-wide operations. The department carried out a total of 983 search, survey and enquiry operations under the provisions of the Income Tax Act and has issued 5,027 notices to various entities on charges of tax evasion and hawala-like dealings. The department also seized cash and jewellery worth over 549 crore out of which the new currency seized (majority of them 2000 notes) is valued at about 105 crore. The department also referred a total of 477 cases to other agencies like the CBI and the Enforcement Directorate (ED) to probe other financial crimes like money laundering, disproportionate assets and corruption.

**Key word:** Surgical currency Strike, Income Tax, black money

### I. Introduction

With effect from 8th Nov. 2016 Tuesday Midnight PM Shri Narendra Modi Ji banned the Currency notes of 500 and 1000. It is a strict decision of banning regular 500 and 1000 rupee notes from circulation which is a result of finding 1.25 lakh crore black money. Within 3 days of that striking decision: Rs 35000 Crore deposited in banks and approximate Rs 1500 Crore Black Money were destroyed.

According to the RBI's (Reserve Bank of India) Annual Report for April

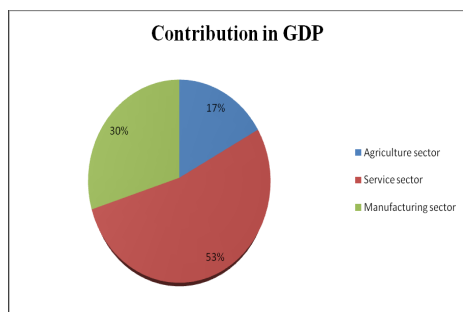
2015 to March 2016, the value of the currency notes at the end of March 2016 was 16.42 trillion Indian rupees. The 500 rupee and 1,000 rupee currency notes formed 86.4% of the value. In one stroke, the government removed 86.4% of the currency in circulation by value. In terms of volume, the currency notes of these two denominations formed 24.4% of a total 90.27 billion pieces.

Also, RBI data showed that as of March 2016, 632,926 currency notes were counterfeit—known as an FICN (Fake Indian Currency Note). As a proportion





of NIC (Notes in Circulation), the 1,000 rupee and 500 rupee notes were the highest. Nullifying these FICNs was also part of the demonetization move. Now we talk about the impact of Demonetization on Indian Economy Sector. First economy can be bifurcated in three broad segments Agriculture Sector, Manufacturing Sector and Service Sector all these three sectors contributed in Indian GDP. Agriculture Sector Contribute 17% in GDP Manufacturing Sector Contribute 30% in GDP Service Sector Contribute 53% in GDP after Demonetization all the three sectors face negative impacts



## II. Objectives of the Study

- A. To analyze the impact of Demonetization on GDP.
- B. To analyze the impact of Demonetization on different sectors of economy.
- C. To analyze the future impact of Demonetization on Indian Economy.

## III. Conceptual Framework

### Reasons behind Demonetization:

As per my study Following is the main reasons behind Demonetization.

#### Black Money:-

A recent study had pegged India's black market economy at over Rs 30 lakh crore or about 20 % of total GDP. This is

even bigger than the GDP of countries like Thailand and Argentina. So now after this decision black money holders are left with just two options – either route this money through banks, declaring it to be their income or burn the stashed file.

#### Fake Currency & Terrorism: -

Terrorism is a frightening thing. But have you ever thought about how these terrorists get their money? Enemies from across the border have run their operations using fake currency notes. This has been going on for years.

#### Economy:-

The Major impact of this decision is on the economy because it gives highly positive impact on the Economic Stability in near future. The coming six to seven months are expected to witness a considerable level of deflation. Sectors like real estate, construction material, gold, unorganized trade and services will see significant pain in the near time.

#### Election: -

We all know how much black money is used by political parties. It will be a very tough task to use trucks of money at least for the upcoming five state elections. Now in upcoming UP election which was held in January neither of the parties can purchase the vote of poor people and Some drastic change in the elections going to be seen by everyone. **Unorganized Trading:-**

1.) Prices hike in Real estate sectors is mainly because of the involvement of black money, but after taking this decision the prices of property will surely come down to their real value. 2.) Unorganized dealing in share market will also be eliminated after this decision and this will gain positive result in the economic condition of the country.



3.) The problem of inflation will get solved with this step as the government will get more money in its pocket in form of taxes and undisclosed income.

4.) Banking system will also get strengthened as banks will be flooded with huge amount of money. This will also result in more economic development in the nation as the money will be channelized properly through banks.

#### **Less Cash Economy: -**

It is not possible to make India Cash-Less economy, but for the development and making transparency in the economy we can say use of less Cash is possible. So for making people familiar with E-Payment and use of plastic currency.

#### **Impact on Different Segments of Economy: -**

There is short-term and long-term impact of Demonetization on different sectors of economy.

- **Agriculture:** The sector typically sees high cash transactions and therefore near-term impact could be seen till liquidity is infused in the rural areas. As farmers face a temporary shortage of cash in hand, it could lead to a delay in payment which in turn would hurt the related companies in the short term. As liquidity eases and cashless transactions gain acceptance, the fundamentals would be driven by the longer term drivers of normal monsoons and positive traction in acreage.

- **Manufacture: Automobile:**

**Two Wheelers:** Clampdown on cash transactions and temporary cash crunch could hurt purchases particularly in the economy segment

of the two wheeler space where the percentage of cash transactions have been high. However, as companies learn to work around it, demand may pick up by overall growth in consumption on the rural as well as the urban side.

**Passenger Vehicles:** The seasonal slowdown seen during November and December months could get more pronounced as consumers delay purchases due to temporary liquidity crunch and expectations of rate cuts. However, as most passenger vehicles are financed through loans, the blip would be temporary and demand may recover on the back of growth in demand in rural and urban areas as well as trickle down benefit of the 7th Pay Commission Payouts.

**Commercial Vehicles:** Slackness in the economy on account of demonetization could have a negative impact on the commercial vehicle volumes which have been under pressure in recent times. However, this slowdown may be short lived and demand may pick up, led by pre-buying in response to the changes in emission norms as well as a pickup in overall economic activity.

#### **Consumption-related sectors like consumer durables, FMCG, etc:**

The outlook is near-term negative as cash sales account for a significant chunk of sales for companies in these sectors. As customers and companies migrate to the cashless platforms, demand should come back making demonetization near term neutral. In the long term, demand may shift from the unorganized players to the organized players.

- **GDP:**



According to the government's latest growth estimates, the pace of growth will be impacted by slowing growth in the manufacturing and mining sectors and also construction activity. This estimate is in line with the forecast of India's Central Bank, Reserve Bank of India, which in its last monetary policy had forecast GDP growth to be at 7.1 percent for the twelve months ending March.

But this latest estimate does not consider the impact demonetization on the economy, "in the absence of sufficient information." While releasing the data, Chief Statistician **T C A Anant** said the figures for November were available and examined but "it was felt in view of the policy of demonetization of notes there is a high degree of volatility in these figures and conscious decision was taken not make projection using the November figure".

This latest government estimate has been released almost a month before the standard release date of February 7. According to the data released Friday – January 6th: "the Gross Value Added (GVA) at basic prices for 2016-17 from the mining and quarrying sector is estimated to decline by 1.8 percent, as compared to growth of 7.4 percent in 2015-16," a statement from the Central Statistics Office of the government said Friday evening. The GVA at basic prices for 2016-17 from the manufacturing sector is estimated to grow by 7.4 percent, compared to growth of 9.3 percent in 2015-16, the data showed. The private corporate sector has a share of around 72 percent in the manufacturing sector.

#### **IV. Research Methodology**

##### **Type of Data**

The present study is quantitative in nature and secondary data will be used for the purpose of analysis.

##### **Source of Data**

The present study is based on secondary data. The sources of data include the facts released by Reserve Bank of India (RBI), Exchange, Central Statistics Office India and different banks websites.

#### **V. Fact and Findings**

##### **A.) Impact of Demonetization on Agriculture Sector: -**

Agricultural growth in India contracted 0.2% in 2014-15 and grew no more than 1.2% in 2015-16, largely because of back-to-back droughts.

It was expected to grow at 4% in this year as per **CRISIL** Report, but due to Demonetization this forecast is proven wrong because Farmers are running out of Cash to buy Seeds, Fertilizer, Equipment, and Wages payment to workers and Commission to Agents etc. Because of Cash shortage daily supply transport system has also suffered which was result in 25 to 50 % reduction in sales. Following is the main reasons;

I. Farmers are not educated and aware about how to work on E-Payment System, Recent study by RBI says 78% of the population do not use internet in which almost 80 to 85% are farmers.

##### **II. In most of the Villages**

**Proper** Banking system is not Developed yet and Villagers are need to go to the cities for the same because of that Farmer's most of the time is engaged in exchanging the old notes in Banks.

##### **B.) Impact of Demonetization on Business sector:-**

As per the study IPP says Growth in Business sector 0.7% in October 2016 but



after 8th Nov.2016 Demonetization shows a different picture because of this decision labour turnover is also increased as lack of Production because of law demand of products people were purchased only if it necessarily required, for this I have studied on following business sector

I. **Textile Industry:-**

Most of the Brands and Retailers Report 40 to 60 % drop in sales after Demonetization in first few weeks but from December onwards this drop is slightly decrease, but still we can say the impact of this decision has affect the industry in 2017 also for at least 3 to 4 months.

II. **Real Estate :-**

Demonetization smashed the real estate market and it will result in 50% drop down and it will remain for further 5 to 6 months. While the short-term impact is negative, Experts hoping that rate cuts in the coming months would boost home sales.

III. **FMCG Products :-**

Consumer expenditures also affected by that decision now only those products are purchased which was necessary for daily consumption and mostly the small traders like kirana store, small bodies, thela wala etc. they all have done their daily transactions only in cash and because consumer has less cash in his pockets the daily sales of these traders drop down by 20 to 30 %. It is also a short term impact in future things get normal.

**C.) Impact of Demonetization on Service Sector:** - Service sector is hit very hard by demonetization decision in November 2016 worst slump in nearly three year is noted.

**The Nikkei India Services Purchasing Managers' Index (PMI),**

which tracks services sector companies on a monthly basis, stood at 46.7 in November, down from 54.5 in October. The Index slipped into contraction territory for the first time since June 2015 and pointed to the sharpest reduction in output for almost three years. On other hand if we talk about Banking Sector this is the only sector which was benefited by that decision in many aspects, this move will pull a large chunk of first time users to banks, who will have to use the system at least once to exchange their old notes for new ones. According to a study conducted by **Moody's**, people tend to continue using banking services once they have crossed the 'first-time user' mark. This development will increase bank deposits by 1 to 2 percent compared to what they were before the demonetization scheme.

**VI. Conclusion**

The present study shows the impact of Demonetization on Indian Economy's different sectors. GDP of country slightly decreases as compare with the previous year but we cannot say it will be same in future also. "This intervention is a one-time draining of this current stock of black money but unless the root causes of corruption are removed, corruption will continue. It is sort of like a dialysis, more of a short term cleaning up than a solution of the problem. It needs to be repeated periodically."

**VII. Expert Review :** Finance Minister Arun Jaitley: "The goal of this is to clean transactions, [to] clean money." Girish Vanvari, partner and head (tax), KPMG in India: —This announcement appears



to be the most significant change made by the Modi government to date.”

Crisil, a global S&P company: —Its impact could be even bigger than GST (the Goods and Services Tax which is still running the gauntlet of politicians).”

Rajesh Chakrabarti, professor and executive vice dean of the Jindal Global Business School at Jindal Global University: Pointing out that only a small percentage (by some estimates as low as less than 6%) of the unaccounted wealth is held in cash.

Pronab Sen, country director of the India Central Programme of the International Growth Centre, a think tank: Demonetization has perhaps “penalized” the entire informal sector and damaged it permanently”, especially the informal financial sector, which could account for a fourth of bank lending, or 26% of GDP.

**Sumeet Soni**, Commercial Director, Benetton, says, “The impact is at both ends — production and consumers. In production, as large part of the industry is still unorganized and lot of activities is subcontracted which are getting impacted due to cash crunch. It has also compelled consumers to pull the plug on spending. The way of doing business, largely cash dependent, has impacted the inflow of products.

**Shitanshu Jhunjhunwala**, Director, Turtle, Said:- “The Indian garment business relies on a lot of cash transactions and the demonetization has brought in a conservative spending sentiment, for which there might be a slight dip in the sales over the next one or two quarters. However, the impact should normalize in the long term and this move would be beneficial for the organized retail sector. The impact is felt more by the small traders and the

unorganized retailing segment that rely more on cash trading and sales. Some sectors like jewellery and the luxury segment have been impacted more than mid-premium and mass segments and will no doubt take a longer period to revive. However, the use of plastic money and transactions through online payments will continue to increase consumer spend in the retail market.”

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## Digital and Cashless Economy - A New way ahead of Demonetization

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**Abstract:** Pay Digital and Win Prizes! As India moves towards a digital and cashless economy, the Government announced on 15th December, 2016 two schemes Lucky Grahak Yojana and Digi-Dhan Vyapar Yojana to give cash awards to consumers and merchants who utilize digital payment instruments for personal consumption expenditures. The prizes range from Rs 1000 to Rs 1 crore and the transactions permitted are from Rs 50 to Rs 3000 to keep the focus on the common man. The schemes will not only give a boost to cashless transactions, but will particularly bring the poor, lower middle class and small businesses into the digital payment fold, and new way of life

**Key words:** Digital India, Banks Pre-paid Cards, Points of Sale

### Introduction

In the repercussion of the cancellation of the legal tender character of old INR 500 and INR 1000 notes, there has been a surge in the digital transactions through use of credit/debit cards and mobile phone applications/e-wallets etc. To further accelerate this process, the Central Government has come out with various incentive packages and measures for promotion of digital and cashless economy in the country. Digital India is a programme initiated to prepare India for a knowledge future.

The Digital India programme is a leading programme of the Government of India with a vision to transform India into a digitally empowered society and knowledge economy. "Faceless, Paperless, Cashless" is one of stated role of Digital India. As a part of promoting cashless transactions and converting India into less-cash society, various modes of digital payments are available

such as Banking cards, USSD (the Unstructured Supplementary Service Data), AEPS (Aadhaar Enabled Payment System), UPI, Mobile wallets, Banks Pre-paid Cards, Points of Sale, Internet Banking, Mobile Banking and Micro ATMs.

### Some of the measures taken by the Government are -

- The Central Government Petroleum PSUs has initiated to give incentive by offering a discount at the rate of 0.75% of the sale price to consumers on purchase of petrol/diesel if payment is made through digital means. The incentive scheme has the potential of shifting at least 30% more customer to digital means which will further reduce the cash requirement of nearly INR 2 lakh crore per year at the petrol pumps.
- In order to enhance the digital payment infrastructure in rural areas, the Central Government



through National Bank for Agriculture and Rural Development (NABARD) will extend the financial support to eligible banks for deployment of 2 Point of Sale (POS) devices each in 1 Lakh villages with the population of less than 10,000. These POS machines are intended to be deployed at primary cooperative societies/milk societies/agricultural input dealers to facilitate agri-related transactions through digital means. This will further benefit farmers of one lakh village covering a total population of nearly 75 crore who will have facility to transact cashlessly in their villages for their agri needs.

- The Central Government through NABARD will also support Rural Regional Banks and Cooperative Banks to issue "Rupay Kisan Cards" to 4.32 crore Kisan Credit card holders to enable them to make digital transactions at POS machines/Micro ATMs /ATMs.
- Railway through its sub urban railway network shall provide incentive by way of discount up to 0.5% to customers for monthly or seasonal tickets from January 2017, if payment is made through digital means.
- All railway passengers buying online ticket shall be given free accidental insurance cover of up to INR 10 Lakh.
- For paid services e.g. catering, accommodation, retiring rooms etc. being offered by railways through its affiliated entities/corporations to the

passengers, it will provide a discount of 5% for payment of these services through digital means. All the passengers travelling on railways availing these services may avail the benefit.

- Public sector insurance companies will provide incentive, by way of discount or credit, up to 10% of the premium in general insurance policies and 8% in new life policies of Life Insurance Corporation sold through the customer portals, in case payment is made through digital means.
- The Vijayawada city police started the cashless transactions city police commissioner D Gautam Sawang has entered into an MoU with the State Bank of India Axis Bank and the National Payment Corporation of India (NPCI) Sharing the details with the media the police commissioner stated that people can avail around 52 types of services from the police department with the introduction of cashless services.
- They can visit the Police station and commissionerate office to avail the services by using the swiping machines. Due to demonetisation a large number of people in the city are struggling of small denomination notes and new Rs.2000 notes in this backdrop the police department introduced transactions. The commissioner stated that the department will use swiping machines to collect the penalty for violation of traffic rules and other offences.



Further to above incentives provided, Government also announced new Yojana's post demonetization. As India move towards a digital and cashless economy, the Government announced two schemes lucky Grahak Yojana and Digi-Dhan Vyapar Yojana to give cash awards to consumers and merchants who utilize digital payment instruments for personal consumption expenditures. The prizes range from INR 1000 to INR 1 crore and the transactions permitted are from INR 50 to INR 3000 to keep the focus on the common man. The schemes will not only give a boost to cashless transactions, but will particularly bring the poor, lower middle class and small businesses into the digital payment fold, and new way of life.

### **To Go Cashless, Win People's Trust First**

As the year draws to an end, with India in a frenzy about how to go cashless, I am reminded of the title of Erica Jong's wickedly funny 1977 bestseller *How to Save Your Own Life*.

That book dealt with gradual stages by which a marriage comes apart. It was lauded by *People* magazine for being "shameless, sex-saturated and a joy", and was described by writer Anthony Burgess as one of the 99 best novels published in English since 1939.

Angst and ATM queues don't inspire libidinous thoughts. But going by the zillions of words which have been used to advocate the happy, happy state of going cashless, I wonder if a book isn't due to "How to Junk Cash and Rev up your Life".

This week, one of my favourite pink dailies thoughtfully listed all the ways in which the Narendra Modi

government is trying to get us excited about having "less cash".

If only you junk cash, and switch to plastic or mobile wallets, there is a bag of goodies waiting for your pick – discounts on purchasing petrol, booking season tickets in suburban trains, paying premium for LIC policies.

There is more, Government departments have been tasked with persuading the hoi polloi to junk cash in every way they can local bodies have been instructed to ensure electronic payments for utilities; here is a 24-hour free to air TV channel called Digi Shala to educate citizens about the good times ahead as we gallop towards a cashless state. And a nationwide toll-free helpline number "14444" is being launched soon to provide support related to cashless mode of transactions. The last is reportedly an idea pitched by Nasscom. Goving digital can also lead to a lottery prize.

Come 2017, expect more goody bags.

Demonetisation and after-the-story refused to move out of the front page or prime time television. As with Jong and her books, it is hard not to be aroused, one way or the other.

Recent data shows that there is greater consumer readiness to adopt digital payments. High-decibel campaigns promoting digital wallets are nudging many Indian consumers towards mobile payments. The trouble is, all this also makes India more attractive to cybercriminals.

Supreme Court advocate and cyber law specialist Pavan Duggal has been crying hoarse for India to have a dedicated law on digital payments. It's very important to grant complete legality and remove doubts and provide





clarifications pertaining to legal efficacies and legal validity of digital payments, Mr. Duggal noted recently.

You don't have to be a cyber expert to realize that the push towards Digital India will succeed only if it is backed by an equally strong, push towards cybersecurity.

For digital payments to work, people have to trust the system, and they have to protect themselves against cybercrime. This requires behavior change, which cannot be coerced. It has to be done through persuasion. That means building trust, which takes time. But it is a must. We Indians will go really cashless only if we feel comfortable and safe doing so.

### **In rush to go digital, don't junk cash yet.**

Going cashless is a good idea. For the government, the biggest gain is an easy audit trail to assess individuals and businesses to tax and to ferret out illegal transactions like the financing of crime, terror, smuggling and drugs. For individuals, plastic (payment cards) and e-money provides far greater security despite the risk from cyber-crime. Businesses also gain. Studies of consumer behavior indicate that paying by card or e-money encourages you to spend more than you would otherwise.

So it is no surprise that Prime Minister Narendra Modi, a man in a rush, is urging the country to abandon cash. But how far are we from the point where a cashless economy can kick in? Presently, at least, 95 cent of personal consumption related transactions in numbers (not volume) are in cash.

Compare this with around 40 cent of cash transactions in more developed markets.

A 2015 World Bank survey established that increasing the number of banked people in the economy is the most relevant intervention till one reaches the level of around 800 accounts per 1,000 adults. India stands at a ratio of 480 accounts per 1,000 adults. This is a fair achievement given the scale of poverty, illiteracy, gender discrimination and the sparse spread of bank branches particularly in rural areas – just around 40,000 for six lakh villages and a population of 800 million.

The high level of poverty and a low savings and consumption levels make rural branches uneconomic. So innovative mechanisms should be developed to provide "barefoot" banking to the poor. This is virtually impossible via our clunky and inefficient public sector banking system. The Reserve Bank of India revolutionized the licensing of payment banks earlier this year by bringing in a "year-around", entrepreneur-driven approach of welcoming proposals for opening banks and branches which provide less than the full range of banking services without inviting proposals for bank licensing through formal rounds, as previously. We need to pursue this approach and establish a bank branch for every cluster of 5,000 adults.

Ramping up the scale of e-money is a "quick win". Over the period of 2010 to 2015, the number of e-money accounts have grown at the rate of an astonishing 63 per cent per annum – more than triple the rate of which bank accounts have increased over the same period in economies which lack universal financial access. Mobile money accounts comprise



55 per cent of such e-money accounts. But, in India, e-money continues to languish at merely 10 per cent of transactions.

A more serious missing link for ramping up cashless transaction is the relative scarcity of point of sale (POS) acceptability of cashless transactions. Easy access to POS ready merchants and vendors is key for building the credibility of plastic money as an alternative to cash.

A mere 1.5 million commercial entities accept cashless transactions in India. Compare this with the 25 million registered commercial enterprises in India. There are, in addition, 30 million micro enterprises. Bringing all these service providers into the POS net expands the market by an order of magnitude. Why should electronic payment and simultaneous tax deduction not be made compulsory for commercial entities in all those towns and villages which already have the necessary basic profile – access to electricity along with phone and road connectivity? Why not ‘carpet bomb’ the 50 largest cities in India with assistance and persuasion to say no to cash?

One cannot develop an entire ecosystem for junking cash by fiat alone. The incentive structure, which today privileges cash settlement because of its lower transaction cost, must be reviewed and reversed. The government started the RuPay debit card in 2014 with the hope that it would incentive the international biggies in the business – Master Card and Visa to look more seriously at the potential fortune which lies at the bottom of the pyramid – the small transactions end of the market.

India has 26 million credit cards and 712 million debit cards. But use is

low. The average use is just 12 times per debit card every year at an ATM and barely two transactions per year per debit card at a POS. The corresponding numbers are less than one for a credit card at an ATM and 38 at a POS. In comparison cards or e-money options are used to conduct around 280 transactions a year per person in high-income economies. We are a long way off from the frontier of cashless transactions. The good news is that we are better off than low and middle income countries, which averaged just 22 cashless transactions per year per person.

Plastic money becomes expensive to use if the individual transactions are small. Typically micro-transactions of less than \$5 (Rs340) are not viable through plastic money and would need to be cross-subsidised. This is where e-money becomes the most appropriate vehicle to mop up the micro-transactions marked in India which could account for as much as two-thirds of the total transactions. After all, cigarettes are still sold as singles in India; a *paan* (betel) costs just Rs.20 and a street meal is Rs100.

If the government is serious about junking cash it must engage with phone carriers and the progressive electricity utilities, the Railways, e-pay platforms, and commercial associations to work out a “reward” driven strategy to move 50 per cent of commercial transactions above Rs.500 to digital settlement. There are some limitations which need to be overcome or gone around like the poor quality of electricity supply, dodgy Net connectivity and the additional cost that needs to be borne to digitize small-value transactions via POS arrangements. Regional hackathons to



develop solutions to specific barriers can pay rich dividends in creating an ecosystem of innovative thinkers focused on solving the problem. The future is digital. Engage millennials to figure out how to fast forward us there out of turn.

### **A New Way of Life after demonetization**

Pay Digital and Win Prizes! As India moves towards a digital and cashless economy, the Government announced on 15th December, 2016 two schemes Lucky Grahak Yojana and Digi-Dhan Vyapar Yojana to give cash awards to consumers and merchants who utilize digital payment instruments for personal consumption expenditures. The prizes range from Rs 1000 to Rs 1 crore and the transactions permitted are from Rs 50 to Rs 3000 to keep the focus on the common man. The schemes will not only give a boost to cashless transactions, but will particularly bring the poor, lower middle class and small businesses into the digital payment fold, and new way of life.

The poorest of poor will be eligible for rewards by using USSD, (the Unstructured Supplementary Service Data) System that is applicable to ordinary GSM mobile phones. People in village and rural areas can participate in this scheme through Aadhaar Enabled Payment System (AEPS). The scheme will become operational with the first draw on 25th December, 2016 (as a Christmas gift to the nation) leading up to a Mega Draw on Babasaheb Ambedkar Jayanti on 14th April 2017.

The Lucky Grahak Yojana for Consumers provides a daily reward of Rs 1000 to be

given to 15,000 lucky consumers for a period of 100 days; and weekly prizes of Rs 1 lakh, Rs 10,000 and Rs. 5000 for Consumers who use the alternate modes of digital Payments. This will include all forms of transactions viz. UPI (Unified Payment Interface), USSD, AEPS and RuPay Cards, but will for the time being exclude transactions through Private Credit Cards and Digital Wallets. The Digi-Dhan Vyapar Yojana for Merchants provides Prizes for Merchants for all digital transactions conducted at Merchant Establishments and weekly prizes of Rs. 50,000, Rs 5,000 and Rs. 2,500.

There will be a Mega Draw on 14th of April – Ambedkar Jayanti. This will give three Mega Prizes for consumers worth Rs 1 crore, Rs 50 lakh, Rs 25 lakh for digital transactions between 8th November, 2016 and 13th April, 2017 to be announced on 14th April, 2017. For merchants too, there will be three Mega Prizes worth Rs 50 lakhs, Rs 25 lakh, Rs 12 lakh for digital transactions from 8th November, 2016 to 13th April, 2017 to be announced on 14th April, 2017.

The National Payment Corporation of India (NPCI), a not for profit company, which has the mandate to guide India towards a cashless society, is the implementing agency for the schemes. The NPCI has been directed to ensure a technical and security audit of the same to ensure that the technical integrity of the process is maintained. The Government shall incur an estimated expenditure of Rs 340 crores on the first phase of the scheme (up to 14th April, 2017).

Towards this end, the Government had



launched a major drive for financial inclusion in terms of opening Jan Dhan accounts, giving a statutory basis for Aadhaar, implementation of Directs Benefits Transfer, introduction of RuPay Cards and Voluntary Disclosure Scheme for unaccounted money. Demonetization of 500 and 1000 Rs. notes on 8th November was another important milestone in this endeavour. Following demonetization, there has been a spurt in the digital payments across the country and both the volume and amount of money transacted through digital methods saw manifold increase since 9th November. Yet, as on date, nearly 95 per cent of India's personal consumption expenditure transactions are cash-based giving rise to a very large informal economy, limiting the ability of State to levy and raise taxes. The daily Ru-Pay Cards transactions in the country have risen from 3.85 lakh on 8th November to 16 lakh on 7 December; the e-Wallets transactions have increased from 17 lakhs to 63 lakhs; the UPI transactions from 3721 to 48238; the USSD from 97 to 1263 and PoS (Point of Sale) transactions from 50.2 lakh to 98.1 lakh.

To further accelerate the surge in digital transactions, the Government announced on 8th December an attractive package to promote the use of cashless payments through various concessions like a discount at the rate of 0.75 per cent of the sale price to consumers on purchase of petrol or diesel, if payment is made through digital means.

**Future of Cashless and Digital Economy:** The year 2017 is an

important milestone for India and would mark transition from a largely cash economy to a less cash and a more digital economy. But the buzzwords like "less cash", "cashless" and "digital" do not really convey the range and diversity of the transition. It is actually a transition to a new social and behavioral pattern. Migrating from a cash economy to a digital economy requires a big behavioral and social shift, and a recast of the whole mindset. Making gadgets available to the society will not help unless we bring about a social and behavioral transformation.

A surge in non-cash transactions through digital options such as mobile wallets and debit cards is a clear sign that India is gradually embracing the cashless economy, but it remains to be seen if this will continue when new currency notes come into circulation. However, one of the major concerns would be digital security. It may be noted that to have a smooth transition to a digital economy, the government needs to have a policy of digital security. A strong digital security and low risk will enhance the spread of digital/cashless economy.

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## Demonetisation – Impact on Trade and Commerce

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**Abstract:** The argument proposed in favour of demonetisation is that the cash that would be extinguished as a “black money” and hence, should be rightfully extinguished to set right the unreasonable incentive structure in the economy. Demonetisation is a major monetary step in which a currency unit’s status as a legal tender is declared invalid. This is usually done whenever there is a change of national currency, replacing the old unit with a new one. Such a step, for example, was taken when the European Monetary Union nations decided to adopt Euro as their currency. In India’s case, the move has been taken to curb the menace of black money and fake notes by reducing the amount of cash available in the system. 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, level of activities and government finances.

**Key words:** Demonetisation, credits, black money, medium term, economy

**Introduction :** On November 8 evening, Prime Minister Modi, in his televised address to the nation, made Rs 500 and Rs 1000 notes invalid, saying that it was aimed at curbing the “disease” of corruption and black money which have taken deep root. In lieu of that People holding notes of Rs 500 and Rs 1,000 can deposit the same in their bank and post office accounts from November 10 till December 30. All notes in lower denomination of Rs 100, Rs 50, Rs 20, Rs 10, Rs 5, Rs 2 and Re 1 and all coins continued to be valid, and new notes of Rs 2,000 and Rs 500 were introduced. There was no change in any other form of currency exchange be it cheque, DD, payment via credit or debit cards etc. Following the announcement, there were huge crowds outside ATMs across the country as people lined up to withdraw currency of smaller denominations. Banks were advised Sunday to increase the Cash Withdrawal limit at ATMs from the existing Rs 2000 to Rs 2500 per day in the recalibrated ATMs. The weekly limit of Rs. 20,000 for withdrawal from Bank accounts has also been increased to Rs 24,000 and the limit of Rs 10,000 per day has been removed. The exchange limit over the counter has also been increased from the existing Rs 4000 to Rs 4500. Amid relentless criticism from the opposition parties, PM Modi



made an emotional appeal in Panaji on Sunday, asking people to give him 50 days to weed out black money and corruption. He also asserted that he was ready to face the consequences of his move, elaborating that he did not care about the risk on his life so long as he manages to rid the country of black money. The Prime Minister also tried to bolster the faith of people in the Indian currency system, stating the government would honour its pledge to give value for the old Rs 500 and Rs 1,000 notes, saying, "Government will not harass the honest, but will not allow the dishonest to go scot free."

### Definition of Demonetisation

Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency: 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 new currency. The opposite of demonetization is remonetisation, in which a form of payment is restored as legal tender.

### History of Demonetisation

The sudden move to demonetize Rs 500 and Rs 1,000 currency notes is not new. Rs 1,000 and higher denomination notes were first demonetized in January 1946 and again in 1978. The highest denomination note ever printed by the Reserve Bank of India was the Rs 10,000 note in 1938 and again in 1954. But these notes were demonetized in January 1946 and again in January 1978, according to RBI data. Rs 1,000 and Rs 10,000 bank notes were in circulation prior to January

1946. Higher denomination banknotes of Rs 1,000, Rs 5,000 and Rs 10,000 were reintroduced in 1954 and all of them were demonetized in January 1978. The Rs 1,000 note made a comeback in November 2000. Rs 500 note came into circulation in October 1987. The move was then justified as attempt to contain the volume of banknotes in circulation due to inflation.

The government's move to demonetise, even then, was to tackle the issue of black money economy, which was quite substantial at that point of time. In January 1978, the Indian government demonetised Rs 1,000, Rs 5,000 and Rs 10,000 notes which was quite substantial at that point of time. The move was enacted under the High Denomination Bank Note (Demonetisation) Act, 1978. Under the law all "high denomination bank notes" ceased to be legal tender after January 16, 1978. People who possessed these notes were given till January 24 the same year — a week's time — to exchange any high denomination bank notes. The main difference between then and now is that currency of higher denomination was barely in circulation, unlike the Rs 500 and Rs 1000 note today.

However, this is the first time that Rs 2,000 currency note is being introduced. While announcing currently circulated Rs 500 and Rs 1,000 notes as invalid from midnight 8 Nov, Prime Minister Narendra Modi said new Rs 500 note and a Rs. 2,000 denomination banknote will be introduced from November 10. Bank notes in Ashoka Pillar watermark series in Rs 10 denomination were issued between 1967 and 1992, Rs 20 in 1972 and 1975, Rs 50



in 1975 and 1981 and Rs 100 between 1967-1979.

The banknotes issued during this period contained the symbols representing science and technology, progress and orientation to Indian art forms. In the year 1980, the legend Satyameva Jayate — 'truth alone shall prevail' — was incorporated under the national emblem for the first time.

In October 1987, Rs 500 banknote was introduced with the portrait of Mahatma Gandhi and Ashoka Pillar watermark. Mahatma Gandhi (MG) series banknotes – 1996 were issued in the denominations of Rs 5, (introduced in November 2001), Rs 10 (June 1996), Rs 20 (August 2001), Rs 50 (March 1997), Rs 100 (June 1996), Rs 500 (October 1997) and Rs 1,000 (November 2000). The Mahatma Gandhi Series – 2005 bank notes were issued in the denomination of Rs 10, Rs 20, Rs 50, Rs 100, Rs 500 and Rs 1,000 and contained some additional/new security features as compared to the 1996 MG series. The Rs 50 and Rs 100 banknotes were issued in August 2005, followed by Rs 500 and Rs 1,000 denominations in October 2005 and Rs 10 and Rs 20 in April 2006 and August 2006, respectively.

### Objectives of the Study

The study has been aimed towards achieving the following objectives:

1. To understand the concept of demonetisation.
2. To analyse the impact of demonetisation.
3. To disseminate information about demonetisation.

4. To identify the problems of demonetisation.

### Research methodology

The research paper is an attempt of exploratory research it is based on the secondary data collected from journals, magazines, articles and reports. Different news articles, Books and Web were used which were enumerated and recorded. Available secondary data was extensively used for the study.

### Impact of demonetisation on trade and commerce in India

Government's decision to ban use of old Rs 1,000 and Rs 500 currency notes is expected to impact adversely the growth of export-import (EXIM) trade, shipping giant Maersk Line said in a report. "Trade wise, Maersk Line expects India's EXIM growth in the fourth quarter (October-December) to be slower than third, as a result of the demonetisation exercise undertaken by the government in November this year," the global containerised division of the Maersk Group said in a statement. "Limited availability of new currency in the hands of people will impact exports in sectors like agriculture due to high number of cash transactions," Maersk Line Managing Director (India, Sri Lanka and Bangladesh Cluster) Franck Dedenis said.

However, such initiatives are aimed at helping government realise its long-term goal of improving infrastructure and introducing regulatory framework. This can ease business operations, simplify taxation system, boost demand and promote transparency in the country, he added.

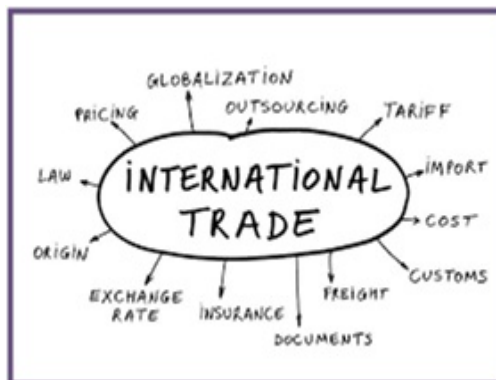


On the outlook for 2017, the India Trade Report said while prices are at an all-time low, through investments in capacity and service offerings, shipping lines are helping Indian products stay competitive worldwide. In 2017, Maersk Line predicts the worldwide container shipping demand to grow by about 1-2 per cent. However, India could easily quadruple the global demand and be the only country amongst the emerging economies to show such growth next year," it added.

Maersk Line in India is a leading container shipping line with footprints across 25 offices, 55 Inland Acceptance Points and presence across 16 ports in India.

"The future looks promising for India. Overall, Indian trade is set to maintain double digit growth in 2017, in contrast to the market challenges of the neighbouring countries led by China and the bleakness of the global trade," the report said. WTO has forecast a further shrink in world trade growth from 2.8 per cent as predicted in April this year to 1.7 per cent in 2016, it added.

"This is the first time in 15 years that international commerce is expected to lag growth of the global economy, signalling the first reversal of globalisation since 2001 and only the second since 1982," the report said. Growth of any Country depends up on its **Export Import Trade**. Indeed it is very crucial for India too. Especially after demonetization the **Exports** have slowed down due to currency crunch. True to its core that instability in the Exports leads to inflation and that in turn leads to an uncertainty of internal purchasing power and unstable economy.



8th November 2016 marked in history when India announced demonetization of its large currencies India's **import and export business** is hugely affected by the recent and shocking announcement of demonetization. The Foreign Trade industry is suffering in the aftershocks and shall continue to suffer for a further period, though for limited time. However the influx of money from the black market shall certainly improve to be beneficial in the long run for **Export Import Trade**.

The fact lies at the moment that plunge in money supply with overflowing bank deposits ring an alarm in consumption demands, means decline in imports. The Indian Government has always paid incentives and promoted Export with easy policies. Nonetheless the Exports market is taking a toll at the moment. Make in India projects need easy flow of currency for manufacturing, hence the Import and Export both trade have got their bottlenecks. This has changed the algorithm in today's economic situation. However stable exchange rate is an idle situation as Volatility vitiates the Trade for India.

For a few months India's Exports may be slow but consider that for any acceleration, the vehicle must be slow to





begin with. Am sure India shall come out with higher GDP and influx of foreign exchange with prosperous Exports, in sooner times than thought of. In Modi's "Swachh Bharat" mission, Exports is the best answer to bring in Foreign Exchange and make India prosper with "clean" business, a scene without black or unaccounted money Wishing and hoping our **Export Import** to get back on its business toes soon to support the Indian economy.

### Impact of demonetization on Indian society/ economy

We shall see a great impact of this move of the Central Government on Indian Society and Economy. The first impact shall be that people will have lower expenditure power. With that they will not be able to purchase luxurious things.

There shall be no ostentatious expenditures on marriages and other ceremonies. So the society will grow lesser materialistic and people more prudent. With the fake money destroyed, Indian economy will see a big boom and the so far booming real estate sector shall fall on the ground.

The things shall be cheaper. Indian Currency shall get respect at the international market. There shall be a great check on the terror-related funding and therefore on terrorist activities. Corruption shall be down to a great extent as people will stop the tendency of accumulating money using wrong means.

It will a bridge the gap between the haves and the have-nots. However, there may be some difficulties for a couple

of months. But this inconvenience shall be temporary and for short-term.

### Problems Of Demonetisation

1. Developers and consultants say that home sales have slowed down significantly as consumers defer home purchases.
2. The traditional trade has been hit hard, especially wholesalers and *kirana* stores where transactions are largely in cash. Still, things are recovering; sales are now down only 20-25% on a year-on-year basis compared to 50% in the first week after the note ban. Rural sales have been hit more.
3. The market for white/brown goods still operates 80% on cash, thereby affecting volumes. Makers of durable goods are launching new schemes to tempt consumers to go cashless. Some of them are also extending discount offers and promotions such as waiver of processing fees and instalment schemes with delayed start of payments.
4. There has been a significant impact on inbound travel. Some airlines have seen bookings go down by about 16% in the week after demonetisation compared to the one before that.
5. Demonetisation has led to major harassment of poor illiterates, senior citizens and those who don't have ID cards.



## Conclusion

We Indians have no choice to believe the intent of the politicians, instead of looking at implementation part. I may add to this, we as a democratic country going through a very volatile phase. Some people are becoming fan of politicians, which is very dangerous. In this process we loss the very important principle of asking questions in a democratic environment. Surely this demonetisation will help eradicate the 5% of the Black Economy which is put in cash. Which might push the bank to decrease interest rate by 0.5% in feb/mar. Also we might move towards digital economy. But looking at some digital economy like Brazil or USA, there is no guarantee that it will put brake to corruption. Whereas Japan considered as less corrupted country even its cash economy is 20% of its GDP. So until unless people of our country stops becoming fan of politicians nothing going to change.

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## Demonetization-Socio-Economic Dimensions and Advantages and Disadvantages

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**Abstract:** Experts believed any slowdown would only be short-lived once the systems adjusted to the new normal, especially if the government heeded calls to lower interest rates by groups like the Federation of Indian Chambers of Commerce and Industry (FICCI). Credit rating agency India Ratings & Research maintained its GDP growth forecast for India at 7.8% for FY17, albeit with a downward bias

**Key words:** stripping currency, corruption, crime

### Introduction

Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency: 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 new currency.

### Breaking down of Demonetization

There are multiple reasons why nations demonetize their local units of currency:

- to combat inflation
- to combat corruption and crime (counterfeiting, tax evasion)
- to discourage a cash-dependent economy
- to facilitate trade

### Dramatic example of

**Demonetization:** The Coinage Act of 1873 demonetized silver as the legal tender of the United States, in favor of fully adopting the gold standard. Several coins, including two-cent piece, three-cent piece, and half dime were discontinued. The withdrawal of silver from the economy resulted in a contraction of the money supply, which subsequently led to a five-year economic depression throughout the country. In response to the dire situation and pressure from farmers and silver miners and refiners, the Bland-Allison Act remonetized silver as legal tender in 1878.

An example of demonetization 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 the Italian lira were demonetized. However,



these varied currencies remained convertible into Euros at fixed exchange rates for a while to assure a smooth transition.

In 2015, the Zimbabwean government demonetized its dollar as a way to combat the country's hyperinflation, which was recorded at 231,000,000%. The three-month process involved expunging the Zimbabwean dollar from the country's financial system and solidifying the U.S. dollar, the Botswana pula and the South African rand as the country's legal tender in a bid to stabilize the economy.

### India's Demonetization

In 2016, the Indian government decided to demonetize the 500- and 1000- rupee notes, the two biggest denominations in its currency system; these notes accounted for 86% of the country's circulating cash. With little warning, India's Prime Minister Narendra Modi announced to the citizenry on Nov. 8 that those notes were worthless, effective immediately – and they had until the end of the year to deposit or exchange them for newly introduced 2000 rupee and 500 rupee bills.

Chaos ensued in the cash-dependent economy (some 78% of all Indian customer transactions are in cash), as long, snaking lines formed outside ATMs and banks, which had to shut down for a day. The new rupee notes have different specifications, including size and thickness, requiring re-calibration of ATMs: only 60% of the country's 200,000 ATMs were operational. Even those dispensing bills

of lower denominations faced shortages. The government's restriction on daily withdrawal amounts added to the misery, though a waiver on transaction fees did help a bit. Small businesses and households struggled to find cash and reports of daily wage workers not receiving their dues surfaced

The government's goal (and rationale for the abrupt announcement) was to combat India's thriving underground economy on several fronts: eradicate counterfeit currency, fight tax evasion (only 1% of the population pays taxes), eliminate black money gotten from money laundering and terrorist-financing activities, and to promote a cashless economy. Individuals and entities with huge sums of black money gotten from parallel cash systems were forced to take their large-denomination notes to a bank, which was by law required to acquire tax information on them. If the owner could not provide proof of making any tax payments on the cash, a penalty of 200% of the owed amount was imposed.

### Alternative Funds

Soon after the announcement, people rushed to buy gold, a demand that drove prices up, in some cases even to a 60% premium, prompting the tax authorities to conduct surveys, according to the Business Standard newspaper. The government emphasized the need to furnish PAN (Indian Permanent Account Number) card details on purchases for accountability purposes, and many jewelry shops that were flouting the norms came under crackdowns. Simultaneously, rumors of a gold ban started to float, which led to



agencies ramping up the volume of gold imports – to around 100 metric tons during November, the highest since 2015, as reported by Reuters.

Many Indians switched to alternative payment avenues – a big deal in a country of 1.2 billion with only 25.9 million credit cards and 697 million ATM cards as of July 2016. The biggest gainers were mobile wallet companies that offer ease of transactions through a large network of partners. Alibaba (NYSE:BABA)-backed Paytm saw a sevenfold increase in overall traffic and a 10-fold jump in money added to Paytm accounts. It also saw the number of transactions double to five million a day.

App downloads for Paytm increased by 300%. Paytm rival MobiKwik also saw its app downloads quadruple and a 20-fold increase in money added to the wallets, MobiKwik Founder & CEO Bipin Preet Singh, told CNBC-TV18 on November 13.

Prepaid cash cards were another option that customers found useful, and that meant good news for companies like ItzCash. Other alternatives include mobile payments systems linked to e-commerce businesses like Ola Money, FreeCharge, Flipkart Wallet. Ola Money, the payment portal for popular transportation app Ola Cabs, reported a 1500% jump in money added to the accounts in less than four hours.

Interest in Bitcoin also spiked: Sandeep Geonka, co-founder of Zebpay, told Investopedia that his bitcoin exchange was now adding about 50,000 new users per month. "We are seeing an

increased demand for bitcoin and India clearly has shortage of supply, making the demand and lack of liquidity push up prices of bitcoin as compared to global exchanges," said Coinsecure CEO Mohit Kalra. The virtual currency was currently trading at INR 55,735 in India in November, compared to \$712, or approximately INR 47,725 (Coindesk) elsewhere.

### **Demonetization Long term effects**

Over 3 trillion rupees, or over \$44 billion in old currency, was deposited with Indian banks in just the first week after the demonetization. There was concern that the uncertainty and short-term liquidity squeeze would take some momentum off the Indian economy, the fastest-growing in the world; in particular, sectors like real estate, notorious as a harbor for cash dealings and black money, were expected to take a hit, with "luxury property prices dipping by as much as 25-30%," said Ashwinder Raj Singh, Ceo of Residential Services, JLL India.

But experts believed any slowdown would only be short-lived once the systems adjusted to the new normal, especially if the government heeded calls to lower interest rates by groups like the Federation of Indian Chambers of Commerce and Industry (FICCI). Credit rating agency India Ratings & Research maintained its GDP growth forecast for India at 7.8% for FY17, albeit with a downward bias.

**Demonetization Advantages and Disadvantages:** Demonetization refers to discontinuing of current currency units and replacing those currency units



with new currency units. It is a major decision and it impacts all the citizens of the country because overnight all the money you have become a piece of paper which has no value if you do not exchange it with new currency units or deposit it in the banks. In order to understand demonetization better let's look at advantages and disadvantages of demonetization .

### Advantages of Demonetization

1. The biggest advantage of demonetization is that it helps the government to track people who are having large sums of unaccounted cash or cash on which no income tax has been paid because many people who earn black money keep that money as cash in their houses or in some secret place which is very difficult to find and when demonetization happens all that cash is of no value and such people have two options one is to deposit the money in bank accounts and pay taxes on such amount and second option is to let the value of that cash reduced to zero.
2. Since black money is used for illegal activities like terrorism funding, gambling, money laundering and also inflating the price of major assets classes like real estate, gold and due to demonetization all such activities will get reduced for some time and also it will take years for people to generate that amount of black money again and hence in a way it helps in putting an end this circle of people doing illegal activities to earn black money and

using that black money to do more illegal activities.

3. Another benefit is that due to people disclosing their income by depositing money in their bank accounts government gets a good amount of tax revenue which can be used by the government towards the betterment of society by providing good infrastructure, hospitals, educational institutions, roads and many facilities for poor and needy sections of society.

### Disadvantages of Demonetization

1. The biggest disadvantage of demonetization is that once people in the country gets to know about it than initially for few days there is chaos and frenzy among public as everybody wants to get rid of demonetized notes which in turn sometimes can lead to law and order problem and chaotic situation especially in banks and ATMs which are the only medium to change the old currency units to new currency units.
2. Another disadvantage is that destruction of old currency units and printing of new currency new units involve costs which has to be borne by the government and if the costs are higher than benefits then there is no use of demonetization.
3. Another problem is that majority of times this move is targeted towards black money but if people have not kept cash as their black money and rotated or used that money in other asset classes like real estate, gold



and so on then there is no guarantee that demonetization will help in catching corrupt people.

As one can see from the above that demonetization has both advantages and disadvantages and it is up to the government to see and analyze all the pros and cons and then decide whether it is beneficial to go ahead with demonetization or not.

### Conclusion

The original assumptions underlying the decision remain unclear, but it seems to be causing considerable harm. All this harm is likely to buy us only a small dent on the black money problem and the elimination of a few hundred crores of fake currency. This is not a good bargain, especially considering the long-term consequences. I am not sure the government intended this bargain. Still, at the moment, the decision is popular.

Government may have painted itself into a corner of righteousness. Since, this decision seems to have struck a chord with a larger number of citizens, political ambition might tempt the government to double down on this path, and take more "shock and awe" decisions. It would take considerable statesmanship to veer away from this path of temptation fraught with enormous risks but questionable benefits.

The government would do well to reflect on the failures of the policymaking

process that led to what appears to be a bad decision. If this was indeed a genuine mistake, and government's assumptions turned out to be wrong, it would be unwise to risk making more of such mistake in an impatient pursuit of lofty goals. Our government's capacity to run complex programmes is very limited, and it is best expended on higher priority problems, such as building the criminal justice system, achieving public health goals, improving learning outcomes in primary education, building a credible defence apparatus, ensuring provision of sound infrastructure, ensuring clean air and water, and so on.

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## Impact of demonetization on Indian economy and agriculture

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**Abstract:** The impact is visible in different sub-segments. Winter crops such as wheat, mustard, chickpeas are due for sowing in a fortnight. Wheat prices were already up due to low stocks and anticipated shortfall in 2015-16 output and have firmed up further as demonetization fallout pushes traders to build more inventories. Production in 2016-17 could drop if sowed acreage (rabi) reduces for want of enough seeds on time to exploit the adequate soil moisture. Yields could fall from late sowing and subsequent exposure to rough spring weather, the lack of sufficient or timely application of fertilizers, pesticides, etc. Farm labour, vital for this period, is reported to be unpaid as farmers have no cash. Many of them are reported to be returning from some northern parts to homes in UP and Bihar.

**Key words:** Labour shortages, Black Marketing, Currency Storage, Corruption

### Introduction

Is an economic term is used to mean the “scrapping of old currency notes and stripping them off their status of legal tenders, usually when a new currency note or currency is being introduced in the economy of the country. This is a standard practice followed by all major economics of the world for different reasons for instance, when the ‘Euro’ was introduced as the common currency of the European union, the participating countries, had effectively followed a demonetization drive of their respective currencies by fixing exchange rates for the old currency to the newly introduced Euro, Indian rupee has been demonetized various times as well. The 10000 notes cure demonetized once in January 1946 and then again in January 1978. Recently, the RS 500 and RS1000 notes were demonetized in a surprise move on November, 8, 2016.

### History and Background of Demonetization

- Demonetization is a process by which a series of currency will not be legal tender. The series of currency will not acceptable as valid currency. The same thing happens with the Rs. 500 and Rs. 1000 note demonetization.
- There can be many causes of Demonetization in any economy some of them are : Introduction of New Currency ,Black Marketing, Currency Storage, Corruption and others.
- There will be excess fake currency in the economy is main reason of demonetization.
- On 8th November 2016, Government of India had announced that from today onward rupees 500 and 1000 rupee note will not be a legal tender.





- This means that 500 and 1000 rupee note will be accepted by anyone except the organization declared by government.
- They can change the currency from the banks and post offices till 30th December 2016.
- This is not The First time When Indian Currency is Demonetized In India .
- The first instance was in 1946 and the second in 1978 when an ordinance was promulgated to phase out notes with denomination of Rs 1,000, Rs 5,000 and Rs 10,000.
- The highest denomination note ever printed by the Reserve Bank of India was the Rs 10,000 note in 1938 and again in 1954. But these notes were demonetized in January 1946 and again in January 1978, according to RBI data.
- Rs 1,000 and Rs 10,000 bank notes were in circulation prior to January 1946. Higher denomination banknotes of Rs 1,000, Rs 5,000 and Rs 10,000 were reintroduced in 1954 and all of them were demonetized in January 1978.
- The Rs 1,000 note made a comeback in November 2000. Rs 500 note came into circulation in October 1987. The move was then justified as attempt to contain the volume of banknotes in circulation due to inflation.

### Impact of Demonetization on Indian Economy

#### Effects on Parallel Economy:

- The removal of these 500 and 1000 notes and replacement of the same

with new 500 and 2000 Rupee Notes is expected to – remove black money from the economy as they will be blocked since the owners will not be in a position to deposit the same in the banks

- Temporarily stall the circulation of large volume of counterfeit currency

It would curb the funding for anti-social elements like smuggling, terrorism, espionage, etc.

#### Effects on Money Supply:

- With the older 500 and 1000 Rupees notes being scrapped, until the new 500 and 2000 Rupees notes get widely circulated in the market, money supply is expected to reduce in the short run.
- To the extent that black money (which is not counterfeit) does not re-enter the system, reserve money and hence money supply will decrease permanently.

However gradually as the new notes get circulated in the market and the mismatch gets corrected, money supply will pick up.

#### Effects On Demand:

- The overall demand is expected to be affected to an extent. The demand in following areas is to be impacted particularly:
- Consumer goods
- Real Estate and Property
- Gold and luxury goods
- Automobiles (only to a certain limit)

#### Impact of demonetization on agriculture:

Cash is the primary mode of transaction in agriculture sector which



contributes 15% to India's total output. Formal financing in many parts, especially Punjab, Uttar Pradesh, Odisha, Maharashtra, Gujarat and Kerala is significantly from cooperative banks, which are barred from exchange-deposit of demonetized currency. Notably, this is a time of kharif harvest and start of rabi sowing, partly explaining why this period is dubbed the 'busy season' from a standpoint of credit demand, the other being bunching of festivals and weddings.

Agriculture is impacted through the input-output channels as well as price and output feedback effects. Sale, transport, marketing and distribution of ready produce to wholesale centres or mandis, is dominantly cash-dependent. Disruptions, breaks in the supply chains feedback to farmers as sales fall, increased wastage of perishables, lower revenues that show up as trade dues instead of cash in hand and when credited into bank accounts with limited access affect the sector.

Currently, many of these networks are operating sub-optimally or altogether at a standstill, depending upon location, market links and other item-specific factors. The input side is equally affected as many payments/purchases, such as seeds, fertilizers, implements and tools, are outright in cash. Borrowing-financing operations of larger farmers and organized producers are also cut off.

The impact is visible in different sub-segments. Winter crops such as wheat, mustard, chickpeas are due for sowing in a fortnight. Wheat prices were already up due to low stocks and

anticipated shortfall in 2015-16 output and have firmed up further as demonetization fallout pushes traders to build more inventories. Production in 2016-17 could drop if sowed acreage (rabi) reduces for want of enough seeds on time to exploit the adequate soil moisture. Yields could fall from late sowing and subsequent exposure to rough spring weather, the lack of sufficient or timely application of fertilizers, pesticides, etc. Farm labour, vital for this period, is reported to be unpaid as farmers have no cash. Many of them are reported to be returning from some northern parts to homes in UP and Bihar. Labour shortages and wage-spikes may follow with a lag.

Plantation crops such as rubber, tea, jute, cardamom are seeing no wages paid to workers. Small-medium tea growers have few buyers now (a third of the tea was unsold in recent auction in the south). Raw jute trade is halted as paucity of funds affects procurement-delivery by traders. Projections of scarcity have appeared with appeals for official procurement support. Cotton is witnessing havoc: daily arrivals have plunged to 30,000-40,000 bales against the usual 1.5-2 lakh bales at this time (harvest) as per reports and prices have soared 9% in a week, pushing up global prices in turn.

Vegetables and fruits that along with crops added 61% of agriculture's gross value added in 2015-16, depends critically upon a cash-strapped transport sector for daily supply network. Sales have dropped sharply (25-50%) across markets with occurrences of dumping. At present, demand is repressed for want of



currency, so prices are subdued, but eventually, supply shortages could cause prices to rise.

Production patterns and cycles vary and there is little guidance as to when the demonetization dust finally settles. However, gestation periods extend from 2-3 months for vegetables and 4-6 months for oilseeds, pulses and cereals. Production losses in vegetables cannot be recouped and is a permanent loss. Lower cereals, oilseeds outputs would persist until the next harvest, or about nine months and it is certain that incomes and profit margins will be hurt. Price and output effects will reflect all the above listed factors. This means considerable fluctuations, increased uncertainty and risk.

**Conclusion:-** The demonetisation under taken by the govt is a large shock to the economy. The impact of the shock in the medium term is a function of how much of the currency will be replaced at the end of the replacement process and the extent to which currency in circulation is extinguished. While it has been argued that the cash that would be extinguished would be black money and hence, should be rightfully extinguished to set right fully extinguished to set right the perverse incentive structure in the economy, this argument is based on impressions rather than on facts. While the facts are not available to any body, it would be too hardy to argue that this is the only possible. As argued above, it is possible that these cash balance were used as a medium of exchange. In other words, 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 other economy and its aged.

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Withdrawal of legal tender status For 500 and 1000 notes : RBI notice revised



## Digitalize Economy and Opportunities for India

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**Abstract:** The unexpected move of the Central Government headed by Prime Minister, Mr. Narendra Modi on 8<sup>th</sup> November, 2016 created several vibrations in the Economy. Though it is not a first time to demonetize, the effects are very serious and reached the nerve centers of the Economy including farmers, construction workers, and daily laborers. It took nearly 60 days to overcome the initial problems of the demonetization. After, successfully coming over the short terms impact of demonetization, now government slowly moved towards digitalization of the Economy. Even at the retail stores, vegetable markets the small ATM machines are set up for exchange of money from the buyers to the sellers. Many more commercial banks are coming forward to supply these small ATM machines to those business man who open current account with them, at free of cost. The Central Government and various State Governments promoted mobile applications like BHIM (Bharat Interface for Money - *Bhim App*). It is a Mobile App developed by National Payments Corporation of India (NPCI), based on the Unified Payment Interface (UPI). It has been named after Bhim Rao Ambedkar and is intended to facilitate e-payments directly through banks and as part of the demonetization and drive towards cashless transactions. In the light of the above, an attempt has been made to find the opportunities for India in the Digital Economy.

**Key Words:** Economy, Demonetization, Digital Economy, Small ATM Machines, BHIM.

### Introduction:

The demonetization of high currency notes of Rs.500 and Rs.1000 on 08 Nov 2016, rupee has become weaker than currency of 96 countries or economies. Out of 161 countries' currency, rupee has become stronger than 60 currencies and is at same exchange rate with 5 currencies.

By considering the data for past 6 months before demonetization from 08 May 2016 to 08 Nov 2016, rupee has

become stronger than 125 currencies. But after 26 days of ban on Rs 500 and Rs 1000 notes, rupee has become stronger than only 47 currencies.

Rupee has become weaker by 2.66% against US Dollar (\$) from 66.40 to 68.17 INR per unit US Dollar. Rupee has become weaker against some popular currencies like British Pound, Canadian Dollar and Hong Kong Dollar too. But also became stronger than Euro, Australian Dollar, Swiss Franc, Singapore Dollar and Japanese Yen.

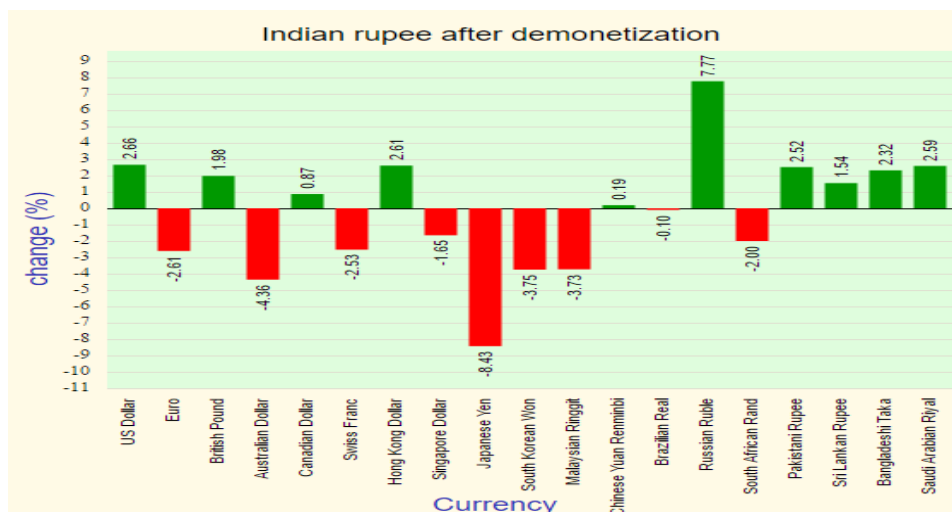


Indian rupee (INR) became weaker than currencies of other south Asian nations

Pakistani Rupee, Sri Lankan Rupee, Bangladeshi Taka and Nepalese Rupee.

| Period   | Stronger | Weaker | Same |
|--|----------|--------|------|
| After 50 days of demonetization (08-11-16 to 28-12-16)           | 60       | 96     | 5    |
| 6 month before demonetization (08-05-16 to 08-11-16)             | 125      | 32     | 4    |
| In Modi Government (26-05-14 and 28-12-16)                       | 94       | 65     | 2    |
| In Modi Government before demonetization (26-05-14 and 08-11-16) | 93       | 66     | 2    |

The graphical presentation of Indian rupee after demonetization, for easy understanding, is as follows.



The above data is giving a mixed opinion about the Demonetization. Therefore, the Government moves towards Digital Economy, restricting free withdrawal and transfer of cash. It initiated several measures to encourage digital transactions in many more ways.

**Opportunities for India in the digital economy:**

**Internet of Everything (IoE):**

The digital economy is the new productivity platform and regarded as the third industrial revolution. Digital revolution popularly known as 'The Internet Economy' or Internet of Everything (IoE), is expected to generate new market growth opportunities, jobs and the biggest



business opportunity in the next 30 to 40 years.

**Growth Enabler:** The Goldman Sachs predicts that the India which comprises of 15% of the world population with a growth rate of 7 to 8%, could be the second largest economy by 2030. India's new leadership considers the digital economy as a major growth enabler. The Indian Government strategically listed "Digital India" among the top priorities of the central Government and it delivered a resounding nod to the digital economy's opportunities.

**Internet of things:** The Department of Electronics & Information Technology of India published Internet of Things policy estimating IoT Industry in India grow up to INR 940 billion, by 2020. The focus areas include Agriculture, Health, Water Quality, Natural Disasters, Transportation, Security, Automobile, Supply Chain Management, Smart Cities, Automated Metering and Monitoring of Utilities, Waste Management, Oil and Gas. The Cisco estimates that all IoE pillars - Internet of things, Internet of people, Internet of data, and Internet of Process for India have a value at stake (VAS) of INR 31.880 trillion (about half a trillion U.S. dollars) for the next ten years. From that INR 7.263 trillion is in the public sector and INR 24.616 trillion is in the private sector during the next decade.

### **Biggest Opportunities:**

The biggest opportunities in Digitalization are learning, smart grid, gas monitoring, and travel avoidance.

The so-called "Payment" opportunity is listed with VAS of INR 1030 billion and "Connected Learning" is listed with VAS of INR 818 billion. The India opportunities are among two major groups: people/citizens with INR 1447 billion opportunity and cities with INR 5816 billion.

Primary benefits of India's public sector are increased revenue; reduced costs; higher employee productivity; improved safety and security; improved environment; enhanced citizen experience, and better health and well-being. Overall VAS in India's private sector is calculated to be INR 24.616 billion as shown in Table 2. For the private sector, there are two categories of opportunities: cross-industry use cases with INR 5.860 trillion and vertical-industry use cases with INR 18.756 trillion.

**Leader in Industrial revolution:** By digitalizing, India becomes one of the leaders in the third industrial revolution, and the use of Information and Communication Technologies (ICTs) that has never been greater. The Governments also acknowledge the digital economy's potential and have substantially invested in digitalization for public and private sectors. The commitment of India's government to spend Rs1.13T (US\$19 billion) within the next five years strategically acknowledges the increasing value of Communication Technologies (ICTs).

**Power to Change:** The global value at stake around 40% will have new winners and vendors in the next decade. This major opportunity of the digital



economy has the power to change the lives of millions of people of India. It could be an important vehicle for change and it could provide the opportunity for India to dramatically expand its role and influence in the global economy and become a powerhouse of digital innovation.

**Conclusion:** The Indian Economy is moving towards digital economy to grab all the opportunities by overcoming any shortfalls therein. Moreover, it leads to corrupt free India, as the money is accounted for and the earner would pay tax on the income at one point or another. At present the tax evasion, unlawful hoarding of cash and corruption leads the India's backwardness.

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Withdrawal of legal tender status For 500 and 1000 notes : RBI notice revised



## Demonetization and Digital Economy

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**Abstract** : 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. It was a day of great turbulence in India’s financial world on 8th November 2016, 20:15 IST, as the government announced demonetization of Indian high-value currency notes. The consequent media frenzy, the furor of rumors, arguments, and counterarguments has been yet to abate. India’s economists have taken a widely divided stance on the efficiency of this move and its impact on the country’s black money situation. According to different sources, the country’s black money can be anywhere between 23-75% of India’s GDP. The switch to the digital economy has its myriad benefits but the question remains. Is the common man of India ready to accept the move from cash to cashless transactions? This paper elucidates the impact of such a move on digital economy .

**Key words:** digital economy, cashless transactions, black money

### Introduction:

The government has implemented a major change in the economic environment by demonetising the high value currency notes – of Rs 500 and Rs 1000 denomination. The proposal by the government involves the elimination of these existing notes from circulation and a gradual replacement with a new set of notes. In the short term, it is intended that the cash in circulation would be substantially squeezed since there are limits placed on the amount that individuals can withdraw. In the months to come, this squeeze may be relaxed somewhat. The reasons offered for demonetisation are

two-fold: one, to control counterfeit notes that could be contributing to terrorism, in other words a national security concern and second, to undermine or eliminate the “black economy”.

By demonetizing the five hundred and thousand rupee notes India hopes to flush out considerable amounts of black money as well as to encourage a switch to cashless state within the mainstream economy. Therefore, this new move will definitely have a huge impact on the **digital marketing** horizon in India. It encourages people to be involved in fewer cash transactions and to use the electronic or plastic money. Apart from the most obvious boosts in terms of tax income, financial analysts





reckon this move will have many benefits in the Indian economy. Some of the obvious beneficiaries of demonetization are banks, micro-financing companies, NBFCs and digital financial operators. Indians are traditionally inclined to use cash transactions and therefore some may feel compelled to object the transition into a cashless economy.

The more digital savvy Indians have already embraced the opportunities of demonetization. PayTM Wallet, a popular mobile e-commerce website based in India has tripled its user base on the announcement ON November 8th. However, there are many more steps the Indian government has to fulfill in order to facilitate a seamless transition to a digital economy. India already has an impressive annual growth rate of internet users with the latest statistic showing a remarkable 32%. With over 350 million internet users, the country has the second largest registered internet user rate in the world and is second only to China.

As a digital **agency**, GBIM has a big role to play in the aftermath of Demonetisation. It is our responsibility to facilitate as many convenient places where people can digitally sign up to transact with their money as they wish. E-wallet companies will have the upper-hand in this new financial environment in India. This is evidenced by the fact that even small local roadside stalls are now setting up payment acceptance through e-wallet companies like PayTM. Many people are now talking about Akodara, the country's first digital village. Everything from bread, milk, wheat flour to designer clothes is

purchased by the people in Akodara through mobile banking methods. The 1,200 people living in this village hardly have anything to worry about Demonetisation or making a switch to cashless buying.

Meanwhile, the Reserve Bank of India is urging the country people to use the internet or mobile banking within the short-term as a means of alleviating pressure on the physical currency. According to **digital marketing** analysts, India's latest monetary change will be the start of a new economic era with Indians having greater access to the benefits of transacting in a digitally empowered world.

**Effects:** Turning to the effects of demonetisation, the first major and sustained effect of demonetisation would follow from the extent to which the currency is extinguished and what this currency was being used for. It is being assumed that all currency which will potentially be extinguished. If this assumption is correct, then the impact of extinguishing this currency would be limited. On the other hand, if the currency is used for any of the other transactions in the economy, either as a store of value or more importantly, as a medium of exchange, then the impact on the economy and the agents in the economy could be substantial. If, for instance, the extinguished cash was used as a medium of exchange in financing unaccounted income generation or income in the informal sector, demonetisation would result in these activities closing down and a corresponding reduction in the incomes and employment associated with these



activities. The spillover effect would be felt by the organised sector as well since the consumption from the incomes generated would extend to the formal sector as well. The next question to ask would be: would these activities/agents choose to come within the folds of the formal sector as a result of the changed economic environment or would they remain outside or worsen the activities and would be extinguished along with the losses generated from the cash that was extinguished. The second change as discussed above, from demonetisation would arise if only a part of the currency deposited in the banks is returned to circulation as cash. This change, if it is executed, would dramatically change the economic environment in the country by forcing agents to move from using cash as a medium of exchange to using cash substitutes. This appears to be a real possibility given that the Finance Minister as well as the Governor of the Reserve Bank of India have repeatedly emphasised that agents should be moving to the use of cashless medium where there are no problems in comparison to the cash based medium.

Demonetisation has certainly paved the way to cashless but it will take much longer time to be total cashless. This may in fact, take a few years. To put it in perspective, as of March 2016 RBI had estimated that India has a total of 24.5 million credit cards and 661.8 million debit cards in operation, all steadily rising; with Indians preferring debit to credit cards. Conversely, in terms of usage, debit card transactions at the point of sale (PoS) terminals accounted for only 12 per cent of volume and 6 per cent of the value of

transactions. The average number of card transactions per inhabitant is amongst the lowest in the world at 6.7. These numbers validate that there is a vast majority of Indians who prefer cash to card or digital.

### Pros of Demonetization

- Will reduce the amount of Black money – After this move, people who have hoarded black money with them, which is more than 20 % of the total economy.
- Will Increase the inflow of the money in the economy – As people has to put their money into bank, which will result in huge increase of inflow of cash in to the banking system thus into the economy.
- Will Hit the business of Fake currency – Almost 80,000 crore rupees of counterfeited money is been pumped by ISI and Pakistan to Indian economy. Which will be hit by these moves badly.
- Terror Funding will get reduce – Most of the illegal work and terror funding is been done through fake currency and earning from the fake currency business. As fake currency business will hit badly by this, so it will lead to stop terror funding for time being.
- Naxal funding will go in vain – Naxal and other illegal mafia has stanchd huge money with them, they have hoarded the big amount with them, which they have earned by their illegal activity. That money is useless now, neither can they put it in the banks nor can they use that money.



- Will hit political funding – As almost all political parties are themselves biggest hoarders of the black money. Their economy will hit badly by this move, we may see a better election in upcoming assembly in UP and Punjab.
  - Will Increase the GDP – Indian Govt. is expecting to get 10 trillion to be deposited in the banks after this move, which will very positively impact the Indian economy and which can improve the GDP by at least 1.5 %.
  - Increase in Public expenditure – Govt. will collect more tax, which will give leverage to the govt. to spend more on Infrastructure, Health and education.
  - Increase in Job opportunity – As Govt. will increase the public funding, the job opportunity will increase in the country, and people will get job in health sector, education sector and Infrastructural sector and banking sector majorly.
  - Poor People will get benefited – As govt. will work on the upliftment of poor, they will get huge benefit from the govt.
- people have medical emergency and health issues, there is weeding season is around the corner. So it is very inconvenient situation for common people.
- Lack of Banking structure – Current banking structure, especially in rural India is not that sound, which can support this huge economic transition, at least 50 days are very less for it.
  - May not stop the corruption and hoarding – If certain steps are not followed properly like 1. Reducing a discretionary power of tax officer, Making tax policy easier, increasing the exemption limit and reduction of tax % from Rich. I am afraid people will again start hoarding money and evading tax. So this whole marathon exercise will go in vain.
  - Will hit economy for two quarters at least – As 90 % of the Indian economy is on cash, this crunch of the cash situation will hit economy for two quarters at least if not more. 50 % of the revenue comes from service sector, which will be worst hit by this cash crunch.
  - Will hit agricultural sector – This is the high activity period for agricultural is concern, farmers this time does not have a cash to buy seeds, fertility items. Which may hit the production of many important items. Which will further impact the economy.
  - “May” see a return of Inflation – Ideally inflation should go down after demonetization, But/if the farmer production gets hit by this. If availability of cash does not get normalize in 2 weeks. Then we may

### Cons of Demonetization

- Problem in exchanging notes – Currently 80 % of the total money in the economy is 500 and 1000 notes. So govt. and people is to exchange 80 % of the money, which itself a huge task & requires great detail of planning. It will be a tough task for govt. as well as for people.
- Public Inconvenience – It might be very inconvenient for public, many



see a less production across agricultural product, which will further result in inflation and high price of food grains.

### Conclusion :

The demonetisation undertaken by the government is a large shock to the economy. The impact of the shock in the medium term is a function of how much of the currency will be replaced at the end of the replacement process and the extent to which currency in circulation is extinguished. While it has been argued that the cash that would be extinguished would be "black money" and hence, should be rightfully extinguished to set right the perverse incentive structure in the economy, this argument is based on impressions rather than on facts. While the facts are not available to anybody, it would be foolhardy to argue that this is the only possibility. As argued above, it is possible that these cash balances were used as a medium of exchange. In other words, 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. It is likely that there would be a spurt in the banking deposits. While interpreting the phenomenon, however, one has to keep in mind that a large part of their deposits were earlier used for transactional purposes. For example, if a small trader deposits 2 lakh Rupees in the Jan Dhan account since the currency in which he held these

balances in for transactional purposes has been scrapped, it would be incorrect to interpret this as success of the programme in bringing in people who were hiding black money. Nor can they be interpreted as additional balances that the banking sector can lend out on the same basis as earlier deposits, since the deposits now would remain in accounts for much shorter periods that deposits based on savings would be.

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## Approach towards Digital Economy in India

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**Abstract:** To make cash-less a success, payment infrastructure needs to go up, and incentives need to be provided for people to make the switch from cash. One of the impediments to move to digital payments has been the charges imposed when using digital payments. However, the government stepped in to withdraw surcharge, service charge and convenience fee on card payments. Ultimately, there will be a cost to go digital, just the way today one pays a convenience charge at airports when taking a flight. Unless the cost of moving to digital is not addressed soon, cash will remain the preferred mode of financial transaction.

**Keywords:** Digital Payments, UPI, NPCI, KYC, Black Money, Demonetization

### Introduction

In recent years, the Government of India has taken several initiatives which were aimed at curtailing the role of black money in the Economy. The impact of the raids and unearthing of hidden money has definitely instilled fear, especially on count of evading taxes or hoarding money. There are numerous theories on how old black money or the money debates on the amount of black money that got back into the banking system being too little a definite take away from the move is that it will not be easy to hoard money and to evade taxes in the future. The numerous avenues offered to people to come clean with their unaccounted for money by the government is clearly indicative of its seriousness in solving this problem.

### Introducing of Digital Payments

The plan to reduce dependency on cash in the economy was laid some years ago, but the real intent was made clear on February 29, 2016 when the Ministry of

Finance came out with cabinet approved guidelines for the promotion of payments through cards and Digital means. Soon after, on March 8, 2016, the RBI came out with a concept paper on Card Acceptance Infrastructure. Both documents set the blueprint of making India less cash dependent for economy's efficient functioning.

The Unified Payment Interface (UPI) from the National Payments Corporation of India (NPCI) was the next step towards making an indigenous payment system for India, which was cost effective and brought all the players under a single platform. The UPI is an app, which is a payment solution that empowers a recipient to initiate the payment request from a Smartphone. It facilitates virtual payment address as a payment identifier for sending and collecting money and works on single click to factor authentication. The UPI enables both 'push' and 'pull' money transfer through smart phones. Mobile wallets have been in vogue for some years now, with their popularity soaring on the back of



demonetization drive. But, these too had their limitations, as one needs to be Know Your Customer (KYC) verified to fully use them as a wallet. Such teething troubles still exist, which will even out with time. What has been heartening over the past two months is the massive increase in the use of plastic and e-wallets resulting in both consumers shifting to make digital payments and vendors in accepting them.

To make cash-less a success, payment infrastructure needs to go up, and incentives need to be provided for people to make the switch from cash. One of the impediments to move to digital payments has been the charges imposed when using digital payments. However, the government stepped in to withdraw surcharge, service charge and convenience fee on card payments. Ultimately, there will be a cost to go digital, just the way today one pays a convenience charge at airports when taking a flight. Unless the cost of moving to digital is not addressed soon, cash will remain the preferred mode of financial transaction.

**Demonetization in India :** On 8 November 2016, the Government of India announced the demonetization of all ₹500 and ₹1,000 bank notes. 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.

### **Impacts of Demonetization in India :**

**Black Money :** Stored in the form of Rs 500 and Rs 1000 notes will be taken out.

**Terror Funding :** Fake Indian Currency Notes (FICN) network will be dismantled by the demonetisation measures. Taking out 500 and 1000 rupee notes out of circulation will have a lasting impact on the syndicates producing FICN's, thus affecting the funding of terror networks in Jammu and Kashmir, North-Eastern states and Naxalite hit states.

**Real estate may see significant course correction :** The demonetization decision is expected to have far reaching effects on real estate. Resale transactions in the real estate sector often have a significant cash component as it reduces incidence of capital gains tax.

**Political Parties in crisis ahead of polls :** With nearly five state elections in 2017, demonetization has stunned political

**Moving towards Digital Payments :** Demonetization will likely result in people adopting virtual wallets such as Paytm, Ola Money etc.: This behavioural change could be a game changer for India.

**Role of Cashless Payments in Demonetisation:** As the Country moves towards a cashless environment after demonetization, the initial awe and confusion have given way to a flurry of concerns. Will the emphasis on online



transactions provide convenience and tangible benefits or just add to stress and additional charges? To incentivize the move towards a cashless economy, the government has come up with a rash of discounts and freebies on digital transactions. But will these be substantial enough and, along with other benefits, counter the higher risk of identity theft once the currency notes are back in circulation? What are the gains and draw backs of financial digitization? Here's a look at what may be in store for you.

#### **Advantages of Going Cashless: Convenience:**

- ❑ The ease of conducting financial transactions is probably the biggest motivator to go digital.
- ❑ You will no longer need to carry wads of cash. Plastic cards, or even queue up for ATM with draws.
- ❑ It's also a safer and easier spending option when you are travelling.

#### **Discounts:**

- ❑ The recent waiver of service tax on card transactions up to Rs. 2,000 is one of the incentives provided by the government to promote digital transactions.
- ❑ This has been followed by a series of cuts and freebies.
- ❑ It's a good time to increase your savings if you take advantage of these.

#### **Lower Risk:**

- ❑ If stolen, it is easy to block a credit card or mobile wallet remotely, but it's impossible to get you cash back.
- ❑ In that sense, the digital option offers limited security

#### **Conclusion:**

Now in India, we have ample e-resources at our hand. We have to optimally utilize them for the purpose of financial transactions, will drive India to Digital India. Digital India is a programme that aims to provide high speed internet access to every citizen, including those in villages, and make the government services or "e-governance" initiatives reach them in real time so that the efficiency and equity of government schemes increase and help in the goal of sustainable inclusive growth.

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## Demonetization – Develops Cashless Economy

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**Abstract:** As India moves towards a digital and cashless economy, the Government announced on 15th December, 2016 two schemes Lucky Grahak Yojana and Digi-Dhan Vyapar Yojana to give cash awards to consumers and merchants who utilize digital payment instruments for personal consumption expenditures. The prizes range from Rs 1000 to Rs 1 crore and the transactions permitted are from Rs 50 to Rs 3000 to keep the focus on the common man. The schemes will not only give a boost to cashless transactions, but will particularly bring the poor, lower middle class and small businesses into the digital payment fold, and new way of life.

**Key words:** consumption, transactions, mobile banking, transactions

### Introduction

This is a public sector innovation unthought of in the history. A cultural-economic revolution in the making!" India's demonetization initiative and subsequent drive towards developing a cashless economy. India is currently in the middle of an all-out movement to modernize the way things are paid for. New bank accounts are being opened at a heightened rate, e-payment services are seeing rapid growth, cash-on-delivery in e-commerce has crashed, and digitally-focused sectors like the online grocery business have started booming. "Even the vegetable vendors on the streets have opened up Paytm accounts and they have a machine outside their shop where someone can scan the bar code and make the payment, So it helps the people to make payments through cashless economy.

As India moves towards a digital and cashless economy, the Government announced on 15th December, 2016 two schemes Lucky Grahak Yojana and Digi-Dhan Vyapar Yojana to give cash awards to consumers and merchants who utilize digital payment instruments for personal

consumption expenditures. The prizes range from Rs 1000 to Rs 1 crore and the transactions permitted are from Rs 50 to Rs 3000 to keep the focus on the common man. The schemes will not only give a boost to cashless transactions, but will particularly bring the poor, lower middle class and small businesses into the digital payment fold, and new way of life.

### Digital India

If the Digital India programme was going on as per schedule, by now 200,000 village panchayats would have been connected and services such as e-education, e-governance and banking would have been available in remote areas. In modern day banking one needs only a laptop and connectivity with core banking software to work as a bank branch.

Banking correspondents at village panchayats could have easily acted as mini-bank branches. It could have saved a lot of hardship in remote areas. The banking correspondents could have easily promoted digital payments and mobile banking. The government should follow its own Digital India policy to promote a digital society that will include cashless payments.





In contrast, about 40 per cent of adults in China and Brazil reported using a bank account to make or receive payments. To beat China on the economic front, India needs to adopt banking payments or digital payment systems vastly. To be sure, the government on its part is working at various levels to reduce the dependence on cash. Opening bank accounts for the unbanked under the Jan Dhan Yojana (Prime Minister Financial Inclusion Scheme) and adoption of direct benefit transfer is part of the overall idea to reduce usage of cash and increase transparency. RBI has also issued licenses to open new-age small finance banks and payments banks which are expected to give a push to financial inclusion and bring innovative banking solutions. Things are also falling in place in terms of technology for India. The recently launched Unified Payments Interface by National Payments Corporation of India makes digital transactions as simple as sending a text message.

No service tax will be charged on digital transaction charges for transactions upto Rs.2000 per transaction. Railway through its sub urban railway network shall provide incentive by way of discount upto 0.5% to customers for monthly or seasonal tickets from January 1, 2017, if payment is made through digital means. Government has waived service tax charged while making payments through credit card, debit card, charge card or any other payment card; limiting the waiver to payments up to Rs. 2,000 in a single transaction

The National Payment Corporation of India (NPCI), a not for profit company, which has the mandate to guide India

towards a cashless society, is the implementing agency for the schemes. The NPCI has been directed to ensure a technical and security audit of the same to ensure that the technical integrity of the process is maintained.

The lack of cash in the economy combined with the buzz around electronic payments systems has also sparked some very innovative solutions. The farmers' markets of Telangana began experimenting with their own electronic payment system where customers with Aadhar-linked bank accounts could buy vegetables using tokens which could be purchased via debit cards at specialized kiosks.

"These changes indicate towards a more inclusive society in the future," .Several areas in which India is trying to improve its digital economy, which include simpler, more technologically advanced digital payment systems, increased merchant acceptance, improvements in UPI, which allows monetary transfers between any two bank accounts via a smart phone, as well as a reduction in cash-based transactions.

Earlier, most people used mobile internet for social networking sites, but that's changing now – as increasing numbers of people are using it to make mobile payments." Service providers are looking to make money by taking a cut from vendors, as the apps are free for customers. They are also flooding the market with cash back offers and discounts to get more traffic. Telecom infrastructure is improving and 3G & 4G services are being offered at very affordable prices, giving a huge boost to mobile commerce in the future. With 4G becoming more and more affordable with entry of telecom giants such as GIO, the



digital wallets adoption in Tier 2 and Tier 3 cities is going to increase many folds. If reliable and fast mobile networks can make it out to rural areas, then mobile wallets should see huge growth in India.

The new initiative taken by government is Aadhaar Payment App. It is an App for making cashless transactions through your multiple bank accounts without using the internet facility. The unique 12-digit number, which carries your identity, is required for payments at the retailers who accept payments through the Aadhaar card. Each transaction will be authenticated by the fingerprint of the customer. Transactions can be made through Aadhaar-linked bank accounts (AEBA) only. Customers don't need debit card or credit card for Aadhaar payments. Retailers can login from their Aadhaar number using the fingerprint scanner. Once the app is validated, they can use it to take payments.

"This will not only help millions of Indians overcome the hassles of dealing in cash but also act as a significant step towards propelling India to emerge as a truly cashless economy."

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## Demonetization and its Positive Effects on Various Aspects in India

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**Abstract:** The demonetization exercise was a very necessary step which was bound to bring with it a tremendous shake-up wherever black money has played a major role. Over the long term, the Indian real estate sector will emerge stronger, healthier and capable of long periods of sustained growth. As of now, there is no reason for developers and investors who have conducted their dealings transparently and legally to panic. It will essentially be business as usual for them.

**Key words:** estate sector, Black money, parallel economy

### Introduction

Demonetization occurs only when there is a change in national currency demolished of money from circulation and it is to be replaced with new notes or coins. sometimes a nation completely replaces the existing currency with new currency. black money is one of the reason for Demonetization. For getting of long term benefits every citizen can contribute in implementation of policy and to develop our nation. Here are the many impacts.

Most of India's business environment has been tremendously shaken up by the recent demonetization of the higher currency notes by the Modi government. This is the third demonetization exercise undertaken by the Indian authorities, if we include the one done just before independence in 1946. It is still too early to accurately gauge the depth of the shakeup this has caused, but its impact on the real estate sector is immediately visible. Since Modi's surprise

announcement, the ripples have been spreading through the already disturbed sector, which has been experiencing excruciatingly slow growth in recent times. Poor sales leading to almost flat prices, heavy liquidity challenges and high unsold inventory have all colluded to keep real estate sector away from fulfilling its potential - and provide necessary residential stability to average citizens.

1. **Black Money:** Black money operators run a parallel economy which shakes the entire Indian economy. With Demonetization move black money will either deposited into banks with heavy penalty or to destroy the entire black money

2. **Hawala Transactions:** Demonetization has targeted the hawala rackets. hawala is a method of transferring money without any actual movement . It facilitates money laundering and terror financing. These hawala rockets run again by using of black money.



3. **Note Bank Politics:** By wiping of old highest valued notes that will make election process more clear and transparent as it becomes tough for the politicians and political parties for purchasing of votes with money

4. **Real Estate:** Floating of black money around this sector is very heavy. this sector is mostly developed on black money. With this demonetization move unexpected reductions in land and property prices.

5. **Economy:** Demonetization cleans the illegal cash to turn around the economy. it will bring more Borrowings , improves inflation, gross domestic product(GDP) , investment opportunities and helps to reduce interest rates and lowers income tax rate.

6. **Counterfeit Currency:** Counterfeit currency means the fake currency which can seriously devalues the real worth of Indian currency. Most of the fake currencies circulated in India with highest denominations. Most of the other enemy countries secretly printing fake Indian currency but new currency notes come with advanced security features which are almost impossible to replicate. So other countries have no option but to shut shops of its fake Indian currency.

7. **Effects on Maoism:** Black money is the main source for Maoists through donations Maoists are getting crores of rupees annually for purchasing of arms, guns, food medicines and other daily essentials

8. **Border Issue Of Kashmir:** For creating of disturbances in Kashmir neighbor countries are spending lot of money. The money is transferred through hawala route. This has been reduced the issues in Kashmir.

9. **Insurgency groups:** Demonetization has severely affected the multiple militant groups as they are also getting money from various sources and from leaders with the money replacement it completely reduces the cash inflow so all the activities have been shuttered down.

**Conclusion:** The demonetization exercise was a very necessary step which was bound to bring with it a tremendous shake-up wherever black money has played a major role. Over the long term, the Indian real estate sector will emerge stronger, healthier and capable of long periods of sustained growth. As of now, there is no reason for developers and investors who have conducted their dealings transparently and legally to panic. It will essentially be business as usual for them.

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## Impact of Demonetization on Rural Consumption Pattern

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**Abstract:** Consumption is an important activity performed by the household sector. Whatever personal income we obtain, from one source or the other, is spent either on consumption or is saved. Today's consumption is exacerbating inequalities. The consumption pattern in India is defined with the reference to the consumer expenditure survey by the NSSO. These surveys divide rural and urban population into different expenditure group. The distribution of household or person and the per capita monthly expenditure on food and non-food items is given for each group. The Government of India introduced economic reforms in various sectors of the economy in July, 1991. The economic reforms were expected to influence the national income and the standard of living of the people. There by the consumption expenditure was expected to change after the reform. The Government of India declared that the five hundred and one thousand rupee notes will no longer be legal tender from midnight, 8th November 2016. The RBI will issue Two thousand rupee notes and new notes of Five hundred rupees which will be placed in circulation from 10th November 2016. Notes of one hundred, fifty, twenty, ten, five, two and one rupee will remain legal tender and will remain unaffected by this decision. This measure has been taken by the PM in an attempt to address the resolve against corruption, black money and counterfeit notes. This move is expected to cleanse the formal economic system and discard black money from the society.

**Key Words:** *inequalities, consumption expenditure, black money, formal economic system*

### Introduction

Consumption is an important activity performed by the household sector. Whatever personal income we obtain, from one source or the other, is spent either on consumption or is saved. Today's consumption is exacerbating inequalities. The consumption pattern in India is defined with the reference to the consumer expenditure survey by the NSSO. These surveys divide rural and urban population into different expenditure group. The distribution of

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The demonetization of Rs 500 and Rs 1,000 notes will hurt agriculture, informal sector workers about 482 million people who earn cash incomes and disrupt India's consumption patterns for at least the next quarter, according to an assessment released last week by Deloitte, an international consulting firm. In contrast, sectors like e-commerce and payment banks, payment gateways are set to gain as transactions using cashless methods will increase over the coming months, the Deloitte report said, emphasizing that "the long-term outlook remains positive in the whole economy".

The reasons of it are: To lower the cash circulation in the country which is directly related to corruption in our country, To eliminate fake currency and dodgy funds which have been used by terror groups to fund terrorism in India; The move is estimated to scoop out more than more than Rs 5 lakh crore black

money from the economy. Similar measures have been taken in the past. In January 1946, currency notes of 1000 and 10,000 rupees were withdrawn and new notes of 1000, 5000 and 10,000 rupees were introduced in 1954. The Janata Party coalition government had again demonetized notes of 1000, 5000 and 10,000 rupees on 16 Jan, 1978 as means to curb forgery and black money.

#### **Objectives:**

To study the impact of economic conditions on changing the consumption pattern and

The consumption pattern of Indian households, before and after the demonetization

#### **Survey Data:**

The paper is based on the secondary data collected from various source. For collecting secondary data, data will be taken from Central Statistical Organization; Reports on National Sample Survey of various years, various websites on the internet, various published and unpublished reports and journals will be considered.

#### **Changing consumption pattern:**

Consumption pattern has attracted a greater interest to a larger number of researchers in developed countries but in all under-developing countries research interest in consumer studies receive less attention. Consumption expenditure on different food and non-food items are generally used as the main yardstick for measuring standard of living in developing nation. Studies of temporal changes in consumption pattern, provides an insight into the status of human resources of a

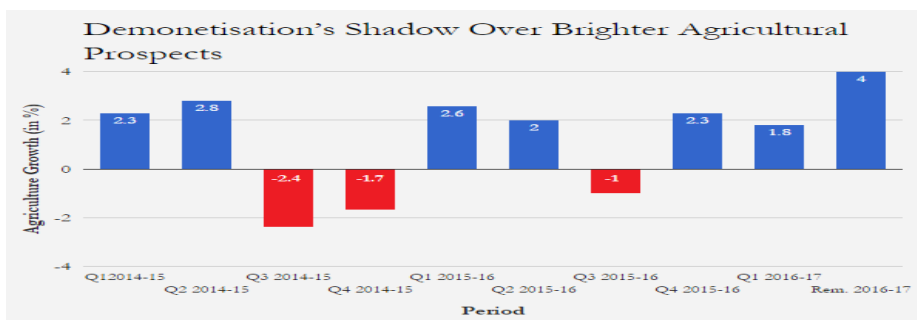


country and hence is helpful in planning future investment decision. Such studies attained special focus in recent years in wake of globalization and concerns about food securities.

Agriculture Sector under stress

Agricultural growth in India contracted 0.2 percent in 2014-15 and grew no more than 1.2 percent in 2015-

16, largely because of back-to-back droughts. Agriculture was expected to grow at 4 percent this year according to this October 2016 CRISIL report, but demonetization is likely to dent that forecast. India is currently in the midst of the winter sowing season, but farmers are reported to be running out of cash to buy seeds.



Source: Key Economic Indicators, Office of the Economic Advisor

\* Note: For 2016-17, number represents prospective growth figures.

Indian farmers expect a record harvest this year, as *India Spend* reported in October 2016, but the rural economy on which 800 million people, or 65 percent of India's population, depend is largely driven by cash. Farmers buy seeds, fertilizers and farm equipment in cash, pay their workers in cash, and traders and commission agents pay farmers in cash. The shortage of cash is spreading anger in the countryside.

### Previous Experience of Demonetization -Indian context

Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization for us means that Reserve Bank of India has withdrawn the old Rs 500 and Rs 1000 notes as an official mode of payment. The total currency in circulation in India was

Rs. 17.77 lakh crore. In terms of value, the annual report of Reserve Bank of India (RBI) of 31 March 2016 stated that total bank notes in circulation valued to Rs.16.42 lakh crore of which nearly 86% (i.e. Rs. 14.18 lakh crore was 500 and 1000 rupee notes). In terms of volume, the report stated that 24% of the total 9,026.6 crore banknotes were in circulation

**Myanmar experience:** In 1987, the country's military junta invalidated as much as 80 per cent of the value of money in circulation, according to reports at the time as in other such initiatives; it was directed at curbing the black market. One result was the first student demonstrations in years. Deepening economic unease helped trigger mass protests across the nation the following year that led to a



government crackdown that killed thousands of people.

**Russia:** On its last legs, the country under Mikhail Gorbachev in January 1991 withdrew large-ruble bills from circulation in a move to take on the black economy. The reform failed to halt inflation, and instead served mainly to accelerate a slide in public confidence in the government. As political infighting combined with economic collapse, Gorbachev faced a coup attempt that August which destroyed his authority and led to the Soviet break-up the following year. Learning lessons, Russia's 1998 redenomination of the ruble, when it removed three zeroes, went altogether more smoothly.

**North Korea:** In 2010, the regime of then-dictator Kim Jong-Il mounted a reform that knocked off two zeros from the face value of the old currency in an effort to tighten control of the economy and close black markets. Combined with a poor harvest, the measure left the country with severe food shortages, according to reports at the time. Surging rice prices stoked unrest that prompted an unusual apology from Kim, and -- reports suggested -- the execution of the ruling party's head of finance.

**Nigeria:** In 1984, the military government led by Muhammadu Buhari instituted an anti-corruption crackdown that involved issuing new banknotes with a different color, forcing the replacement of old ones within a limited period. The move was one of a series that failed to fix a debt-burdened and inflation-ridden economy. Buhari, who is

now in power again, was eventually ousted in a coup the following year.

**Effect on parallel economy:** The removal of these 500 and 1000 notes and replacement of the same with new 500 and 2000 Rupee Notes is expected to - remove black money from the economy as they will be blocked since the owners will not be in a position to deposit the same in the banks, temporarily stall the circulation of large volume of counterfeit currency and curb the funding for anti-social elements like smuggling, terrorism, espionage, real estate business etc.

**Effect on E-commerce and payment companies :** As e-commerce websites stop cash-on-delivery the most favored option for Indian online shoppers, comprising 80 percent of sales and struggle to hand over to banks the money they collected after demonetization, the report predicted a rebound that will benefit both the e-commerce industry and companies facilitating payments to it, such as payment gateway companies, payments banks and electronic money transfer portals. Online transactions in India rose 40 percent in 2015, India Spend reported on 12 November, 2016. Other possible impacts that the Deloitte report listed: A hit on foreign trade as the rupee currency appreciates; lower inflation and cheaper prices, especially in the real-estate sector.

#### **Some of the short-term impacts**

There will be a disruption in the current liquidity situation as households are likely to get affected by the note exchange terms laid by the government.





Though clarity is unfolding on this, commodity transactions and general cash market transactions are likely to feel an immediate impact. Unorganized sector proceedings, including small trade market activities, will remain volatile in the short-term. Unorganized sector proceedings, including small trade market activities, will remain volatile in the short-term.

### **Some of the sartorial impacts**

While sectors with linkages to the unorganized economy are likely to be affected, technology and financial services are expected to gain in the medium to long term. On a sectoral basis, the commodities and agricultural sector, including the market for consumer durables and non-durables is expected to feel the heat. In the short to medium-term, large denomination purchases will likely be made via electronic purchases rather than through through brick and mortar outlets. This will impact the retail sector adversely. The real estate sector is likely to see a significant negative impact in the medium- to long-term, particularly in the repurchase market. There are expectations of a revaluation of current real estate transactions across the board representing possible losses to players in the sector. The luxury goods market is also likely to get affected as this move represents an erosion of real wealth to a large number of people. Areas of sub sectoral impact will be felt in luxury cars, SUVs, gems, jeweler, gold and high level branded items in the society. On the positive side, there is likely to a reset of spending patterns as this move represents indirectly a significant push towards a cashless economy.

### **Conclusion**

This essentially represents a change in regime for the real and financial economy. Domestically, there could be some turmoil as the effect will be disproportionately felt by the lower and upper income classes. Internationally, the government is likely to get thumbs up for the move and more countries could potentially see this as a viable option to curb black money and stem illegal financial activity. But in this large democratic country the majority of the people depend on the unorganized sectors due to the inadequate income and consumption pattern hence it is not suit for this economy. Though this move by the government may not is a first having being tried by earlier governments as a tool to fight corruption, Such an action achieves larger significance for a globally connected India as it shows boldness in tackling an issue which has remained a thorn in the growth success story.

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## Demonetization in India: An effort to curb black economy

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**Abstract:** Indian Economy has been suffering from the problem of black money for a long time. Black money is the money which is uncountable for the national income and no tax is paid to the Government on this amount. Consequently, it becomes very dangerous and root cause of corruption to the entire economic system of a country and it decreases the growth rate of an economy. Keeping this problem in view, the Government of India decided to implement the policy of demonetization to devalue the existing authorized currency. On the eve of 8th Nov. 2016, Indian Prime Minister Sh. Narendra Modi announced his government's decision to cancel the legal tender character of old currency with effect from 9th Nov. 2016. It included the cancellation of legal tender of Rs. 1000 and Rs 500 and issuance of new currency of Rs. 2000 and Rs. 500 in exchange for the old banknotes in form of Indian currency. The present research paper highlights the need and impacts of demonetization in 2016 on Indian Economy.

**Keywords:** Black Money, Economy, Legal Tender, Devalue, Currency, Demonetization, Cashless Economy

### Introduction

It was the third instance in 2016 when the Government of India promulgated an ordinance to phase out the currency in form of bank notes of Rs. 1000 & 500, and announced by our Prime Minister Sri Narendra Modi that all currency notes of denomination of this amount will lose legal tender from midnight of 9<sup>th</sup> November 2016. Moreover, the Government decided to re-issue new currency notes of Rs. 2000 & 500, but the currency of Rs. 1000 was completely done away from the economy. Later in its press conference, the Reserve Bank of India (RBI) declared that Indian has been cash based economy for a long time since 1947, hence the circulation of fake currency notes continued to be a menace for Indian economy. That is why, in order to contain the rising incidence of fake currency notes and black money, the scheme of demonetization has been

introduced with effect from 9th Nov.2016 by the Government of India.

The Reserve Bank of India and the Government also known the impacts of demonetization and declared that several problems will have to be faced by the average middle class persons, farmers, banks and some other segments of the economy as a whole for some months.

### 1.1 Meaning of Demonetization

The demonetization undertaken by Modi Government is known as a great shock to common people and Indian economy. It is the process to replace the currency in circulation by new currency notes. Some of the economists called it '*a surgical strike*' of black economy. Moreover, it has dual meaning; first is to divest of value and second is to withdraw the old currency from use and replace it with new currency notes. However, it is an act of stopping the existing currency notes as a legal tender and to retire the



old currency notes or to replace them with new currency notes.

### **1.2 The Scenario of Demonetization in 2016**

Demonetization has its own past in India. The first instance was in 1946 and the second was in 1978 when the Government of India had announced to phase out currency notes with denomination of Rs. 1000, 5000 and 10,000 from the economic system.

But the instance of 9<sup>th</sup> Nov. is very different from earlier instances regarding the demonetization. This incidence was given a due coverage by media and it affected all segments of the economy. While announcing the scheme of demonetization, our Prime Minister announced that people will have to suffer for 50 days and after this time the problem faced by citizen will gradually decrease. The Congress spokesperson Sh. Randeep Singh Surejewala had raised the concern that rural area farmers will have slightly more inconvenience due to the Rabi crop harvest season. Some of the political parties and economists had also raised the concern that there will be an apparent inconvenience to the common man initially to exchange and deposit old currency note in the short span of time for this purpose. Moreover, people living in rural areas will have slightly more inconvenience in terms of transportation and additional expenses in case of no banks in the rural areas. The banks will also have to face many problems because people will choose the easier way of depositing and exchanging the old currency notes. It did happen and the managerial difficulty of handling long queues and the over burden of work was faced by the bank employees and police department. But, this scheme was

supported by the common people, middle class, banks and intellectual class of the society, and the initial problems faced by the people gradually decreased. That is why; the scheme of demonetization was appreciated to tackle the problem of corruption and black money in the country.

### **1.3 Need of Demonetization**

While addressing the problem of corruption and the black money, our Prime Minister had declared that the touted benefit of demonetization is that it would drain the black money from the economy and black money holders or hoarders would either have to come clean and pay punitive taxes or have to turn their cash to trash. Consequently, our economic system would be purged of significant amounts of black money and fake currency. Moreover, the highest denomination currency notes used for illegal funding by terrorists and naxalists to expand their network would be curbed out from the economy. Some of the economists argue in favour of demonetization and remark as under:

- To curb the problem of corruption and the black money.
- To reduce the extent of counterfeit money.
- To tackle the problem of fake currency.
- To move to electronic and plastic currency.
- To move to cashless or less cash economy.
- To curb the illegal funding for terrorism and naxalism.
- To make corruption free and digital India for the better future of Indian economy.



#### 1.4 The Scheme of Demonetization

Our Prime Minister took a historical and remarkable step on the eve of 8<sup>th</sup> Nov. 2016 in order to curb fake currency, black money and corruption from the economy. It was officially announced that the currency notes of Rs. 1000 and 500 are banned from 11<sup>th</sup> Nov. 2016. However, these notes could be used for two days 9<sup>th</sup> and 10<sup>th</sup> Nov. Thereafter, these notes remained acceptable only at some particular places such as petrol pumps, medical stores, hospitals, schools fees, water and electricity bills, LPG shops and toll plazas till 14<sup>th</sup> Nov. Meanwhile, people could exchange the old currency till 30<sup>th</sup> Dec. 2016 with the new currency notes of Rs. 500 and 2000 signed by RBI's new Governor, Mr. Urjit Patel and issued to all banks and post offices. However, there remained a lack of sufficient new currency notes for some days and the common people had to suffer due to it. Nevertheless, we cannot ignore the fact the Government of India kept keen eyes on the whole process of demonetization and its imperatives were two folds: one, to control counterfeit notes that contributed to terrorism and second, to undermine or eliminate the black money.

#### 1.5 Impacts of Demonetization

Now regarding the impacts of demonetization it is being assumed that all currency which will potentially be extinguished would be currency being used as a store of value in the first and second category transactions or illegal transactions. If the currency is used for any of the other transaction in the economy, either as a store of value or more importantly, as a medium of

exchange, then the impact on the economy and the agents in the economy could be substantial and if this currency is used in financing unaccounted income generation, demonetization would result in these activities closing down and a corresponding reduction in the incomes and employment associated with these activities. The spillover impact would be felt by the organized sector as well as since the consumption from the incomes generated would extent to the formal sector as well. Secondly, the process of demonetization would dramatically change the economic environment in the country by forcing agents to move from using cash as a medium of exchange to using cash substitutes. The RBI Governor and PM of India urged the citizens to switch to alternative modes of payments such as pre-paid cards, credit cards and debit cards, mobile banking and internet banking.

The process of demonetization could have the following impacts whether they may be short terms, medium terms and long terms as under in form of positive and negative:

#### 1.6 Negative Impacts

- It has shown a severe contraction in income and consumption in the economy.
- It has adversely affected the Transport Services, Kirana Stores, Fruits, Vegetables and all other perishables and it has also reduced the purchasing power of the consumers.
- A compression of the demand has been seen for non-essentials by all the agents in the economy in the face of uncertainty in the availability of cash. However, who had access to



digital medium of exchange have remained unaffected.

- It has adversely affected the employment pattern in agriculture, automobiles and constructions due to lack of cash, farmers have suffered a lot and they could not purchase seeds and pesticide for sowing Rabi crops which can affect the Kharif crop. In the same way, construction sector has been adversely affected. It is argued that this sector works with a significant amount of cash.
- It has very badly affected the real estate, which have earned unaccounted incomes and placed them within the real estate space. Consequently, prices of property and transportation have ceased. Furthermore, it could lead to a compression in investments in the construction and its allied sectors such as cement and steel industry.

#### **Positive Impacts**

- If we analyze the whole scenario of demonetization, it can be traced out that there is a tendency of increase in tax collection in the short term. Today, people want to get rid of unaccounted cash balances. There are evidences that property tax collections have increased higher than last year.
- There is a tendency of increase in bank deposits. But the currency deposited in banks is not withdrawn it could adversely affect the economy and banking system. Nevertheless, most of the economists argue that bank deposits will create more capacity to support economy. Clearly, the additional deposits would appear to be capable of stimulating a

significant increase in the potential credit. However, there is an urgent need to upgrade the banking system and telecom infrastructure to provide the backbone for digital transactions.

- It has changed the habit of keeping cash in hands and people have started to use e-banking, e-wallets, credit and debit cards. In future, there may be a change in the habit of cash keeping by rural masses and they could also be moved towards less cash practices. It is also hoped that there would also be a reduction in cash transaction in real estate sector.
- This move is likely to be better tax compliance, raise the tax to GDP ratio and improved tax collection could lead to lower borrowing and better fiscal management. Recently, the Government of India has announced tax reduction in her budgetary provisions. Its credit goes to the scheme of denomination.

#### **2. Conclusion**

However, this process of demonetization has shown many positive as well as negative impacts in short and medium terms. Nevertheless, we cannot ignore the fact that it would have more and more positive impacts in long term and we would be capable to curb the problem of fake currency, black money and funding for terrorism. But in spite of this it has badly affected the various segments of the society such as automobile and real estate and its allied sectors. Moreover, retailers, traders, paddlers, shopkeepers, farmers, rural and tribal people have to suffer due to lack of cash or to exchange their old currency notes. It has also affected



communication, traveling, tourism, education, entertainment and many other services at the initial stage and political parties started protest against this scheme; but in spite of some difficulties this move has been supported by the common people and economists as well as intellectual segment of the society and this move has been successful to grab black marketers and black money holders upto some extent. It has been successful to curb the funding for terrorism and smuggling and a hike in the tax collection has been observed which will boost the economic structure of the country. And it has been seeking a way to identify or trapping the benami transactions. Actually, it is a surgical strike of Indian economic institutions and India would be free from the evils of corruption and black money.

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## Merits and demerits of demonetization

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**Abstract:** In last few days there has been quite a lot of debate on demonetization- one of the biggest criticisms being that the implementation has been quite poor and has caused a lot of inconvenience to the common man. While it is hard to say what exactly transpired in the corridors of power in the run up to demonitization, I'm sure certain tradeoffs had to be made between keeping the secrecy of the mission vs. consulting all stakeholders and creating a full proof implementation plan. And some of this shows as we see the execution challenges in the last few weeks.

**Key words:** demonitization, circulation, campaign strategies

### Introduction

Demonetization is the act of stripping a currency unit of its status as legal tender. Currency includes coins and paper notes of different denominations issued by the Central Bank of a country duly backed by the sovereign authority. Every banknote in a country is a promissory note by the government and acts as a legal tender duly signed by the head of the Central Bank. The following is printed on an Indian currency of 100 Rupees note: "I promise to pay the bearer the sum of one hundred rupees". To demonetize means to take away the promise of it being the legal tender of the said bank notes, and thus depriving it of its monetary value by the sovereign authority. (www.investopedia.com)

### 1)Black Money

Black money stored in the form of Rs 500 and Rs 1000 notes will be taken out of our system. As predicted by ICICI Securities Primary Dealership the government's plan to scrap 500 and 1,000 notes will uncover up to 4.6 lakh crore in black money.

2) **Terror funding:** Fake Indian Currency Notes (FICN) network will be dismantled by the demonetisation measures. Taking out 500 and 1000 rupee notes out of circulation will have a lasting impact on the syndicates producing FICN's, thus affecting the funding of terror networks in Jammu and Kashmir, North-eastern states and Naxalite hit states.

### 3)Real estate may see significant course correction

The demonetization decision is expected to have far reaching effects on real estate. Resale transactions in the real estate sector often have a significant cash component as it reduces incidence of capital gains tax. Black money was responsible for sharp appreciation of properties in metros; real estate prices may now see a sharp drop.

### 4)Political parties in crisis ahead of polls

With nearly five state elections in 2017, demonetization has stunned political parties. Especially, in large states like Punjab and Uttar Pradesh, cash donations are a huge part of "election management". In one stroke, big parties



will find themselves hamstrung as cash hoards are often undeclared money. Parties will have to completely rein campaign strategies in light of expected cash crunch.

### 5) Moving towards digital payments

Demonetization will likely result in people adopting virtual wallets such as Paytm, Ola Money etc.: This behavioural change could be a game changer for India.

### 6) Temporary chaos and confusion

Public will face minor problem for a few days owing to the scarcity of lower denomination notes in the system.

What is the impact of Indian currency demonetization on Delta Corp?

What is the impact of demonetization in rural world of India?

Will demonetization slow down India's growth?

How will demonetization impact property market?

Why did RBI choose to come out with a ₹2000 note instead of a newer ₹1000 note?

To begin with, demonetization has often been used a tool to cut down **hyper inflation**. We, on the contrary, were running smooth on Inflation and for that matter, were the *fastest growing economy in the world*.

Read few answers above calling it a surgical strike on Black money! There are three major types of Black money:-

1. **Money that is stashed in abroad** i.e tax havens like Panama
2. Money that is in the country but in **higher value currencies** i.e Dollar, pounds etc ( Less in volume

So easier to hide. Also, once you would sell them off you get inflation indexed prices). New 2000 currency will, on the contrary, help this lot because they will have to carry lesser volume of currency once they exchange.

3. Unaccounted money stashed under mattress or elsewhere to evade tax.
  - o **1 and 2 are off course out of the ambit** of this move. Different sources claim that they are as much as 90% of the total black money. For a fair argument, let's just assume it to be somewhere around 85%. **So 15% of the total black money is in question here.**
  - Given the different unfair means prevalent, do you really think that the 15% of the total black money has been dumped in the garbage? ? Bank managers, gold sellers, etc are all involved in it. **This news for example will give you an idea.**
  - o Bengaluru: Rs 2000 notes worth over Rs 4 crore seized by Income Tax dept
  - Calculate it all and you would reach to a conclusion that only a meager percentage of the total black money has gone inoperative; possibly.

*Few claim that this has further curbed the terror funding and allied activities borne out of the fake currencies. Well, only 0.02 % of the total currency in circulation were being used in such activities (Source: Lok Sabha )*

Hmm, so around 75+ odd people died and millions are suffering to curb utmost 5% of the total black money and 0.02% of fake currencies!! Bravo





- To those campaigning for a cashless country :
- Even if I include all the Jan Dhan accounts, there are around 40 crore people with bank accounts in this country out of the total population of 125+ crore. **Paytm ?? Hmmm**
- And if you are calling it poor people's negligence to have not opened an account, this fact will blow you up : **4 out of 5 villages in this country don't have a Bank !!**
- To dream of a cashless society is a nice fantasy but don't you dare ignore the constraints that we have !!
- Also, Don't forget that this cash economy coupled with the fiscal measures helped us survive the **sub prime crisis of 2008** which was the biggest recession after the the great depression of 1930s. Institutional investment/Banks went bankrupt but the general tendency of us Indians to hold cash didn't erode us of our purchasing power, *economy thus kept going.*
- Only affirmative in all of this is the **empowerment of banks**. They now have enough cash to loan the capitalist class. Don't be surprised, we do know the benefactors of bank loans. **Priority sector lending (meant for the poor)** is too low to make an impact. *It was thus a good move to take our cash and loan them to corporates.* I wish some government would be this strict to NPAs in order to empower banks. **Tch tch**
- **Now let's quickly move on to the implementation :**
- Here I lay Couple of points for your consideration :
- New 2000 notes are so small that most of the ATMs are having problems in adjusting them. Was this too hard to forecast ?
- Shortage of currencies in all the banks till date further proves how badly the implementing agencies has worked. Government claim that in order to keep it secret they didn't take much time to print enough cash. Hmm Btw, They could have rather printed the equivalent amount of 100 Rs notes, couldn't they ? No one would have had the slightest of doubt. ( Please don't come up with the arguments like printing currency is limited and all. No it's not. Government can print as much as they want but since it's inflationary they often don't. Here , the case was different. Old currencies were planned to be destroyed and hence equivalent amount of fresh currency could have been printed without any fear of inflation)
- New rules everyday. Reminds me more of trial and error sums. Damn it, there's a county in question. !!
- I don't quite blame the PM for all of this. They do come up with such ambitious plans. This is the job of the Finance Ministry to either convince him to not do it now given the constraints we have *or* to implement it more efficiently. Either way, Mr.Jaitley failed this country.
- I am so sorry if this answer has disappointed a lot of you. I do have a tendency to reflect my inner self in my answers. I am disappointed and



thus, my answer will bring out the same, disappointment.

As most of the unaccounted wealth is particularly widespread in real estate sector, the central government's latest decision on note ban is expected to cause problems for developers. As there will be the liquidity stress on them, they may slow down the construction works and it would eventually increase the number of residential projects getting delayed on its completion.

In last few days there has been quite a lot of debate on demonetization- one of the biggest criticisms being that the implementation has been quite poor and has caused a lot of inconvenience to the common man. While it is hard to say what exactly transpired in the corridors of power in the run up to demonitization, I'm sure certain tradeoffs had to be made between keeping the secrecy of the mission vs. consulting all stakeholders and creating a full proof implementation plan. And some of this shows as we see the execution challenges in the last few weeks.

Having said that, I also have another contrarian point of view. Why should all the burden lie on the government. Shouldn't all of us as citizens have a role to play? To educate others on digital payments, to take our household help to bank and open their accounts, to convince our parents/ relatives to have all transactions in 'white' and pay taxes in full. The performance by citizens of India has been better than average in terms of maintaining peace and order, respecting the new rules etc. But I'm afraid that may not be sufficient. We, especially the educated lot, need to do a lot more to make sure the objective of a cashless

society gets realised. Here is a small way in which you can do so - enabling a literacy mission on digital payments.

Imagine when every sabjiwallah, doodhwalla can use digital payments, and people can no longer use 'cash' transactions as a way of massive tax evasion, what all benefits can accrue to the country. Imagine the development spending that the government can do with all the additional tax collections - spending that ensures that we are in line with any other developed country in the world.

Here's hoping that day comes soon. And this time there are no execution challenges. There is currently a lot of debate happening on how the government's demonetization move and Trump's triumph will impact the real estate sector. The NIFTY Realty Index fell by almost 12% as a reflection, purely on sentiment. While bellwethers are hinting at dark days ahead, these fears can at best be called unfounded when it comes to the Indian real estate business. Let's look at how....

**Commercial real estate:** There will be a minimum impact on office / industrial leasing and transactions, given that cash components do not play a significant role in such transactions.

**Residential real estate:** The primary sales segment is largely influenced by home finance players, and deals tend to be facilitated in a transparent manner. This segment will, therefore, see at best a limited impact in the larger cities, though some tier 2 and tier 3 cities where cash components have been a factor even in primary sales will see a business crunch. The secondary or resale market will, however, certainly be impacted, since this



segment does see the involvement of cash component.

**Real estate investment markets:** Projects could get stretched as informal sources of capital may not be available. This, in fact, spells more opportunities for institutional capital. FDI, private equity and debt players will suddenly find the market even more transparent and attractive. Moreover, banks could start funding land transactions, thereby decelerating land prices.

**Retail real estate:** Retailers could see some impact on their business in the short-to-medium term due to reduced cash transactions. The luxury segment is likely to be hit because of the historically high incidence of cash acceptance. However, credit / debit cards and e-Wallets should come to the rescue. Overall, the domestic consumption story remains intact, with no threat to the overall strength and growth of the Indian retail industry.

**Land sales:** Where land transactions have been happening in the realm of joint ventures, joint development or corporate divestments, will see very little impact of the demonetization move. All of these are quite institutionalized, with little or no cash involvement. However, those carrying out direct land deals will doubtlessly suffer - especially when it comes to agricultural land transactions, which tend to involve significant cash involvement.

**Developers:** There will be minimal impact on large institutionalized players with a solid brand and governance framework. Sales, largely driven by the salaried class or investors with limited cash involvement would not suffer.

Smaller developers are understandably very concerned right now because many of them have depended on cash transactions. We are very likely to see a clean-up of non-serious players due to this 'surgical strike' on the parallel economy. The impact of RERA will further discipline the industry, which will be good for its health in the long term. Hotels and hospitality-related real estate in the organized sector will see negligible impact by the demonetization.

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## Impact of Demonetization on Indian Economy

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### Abstract:

The main objective of this move was to curb the black money, corruption and fake money menace. All the people but those who were indulged in malpractices welcomed the move. The whole opposition shook hand against this move under one presence or the other. They called this decision a draconian law and wanted the govt. to roll back it. Tirades were made to target the decision. Govt. also carried out counter attacks.

**Key words:** breaking news, inconvenience, denomination

### Introduction

A demonetization is an act of removing the legal status of currency as "Legal Tender". Means **old notes or even coins must be retired and replaced with new ones** or completely new currency can be introduced like Rs. 2000 note which was not available earlier.

On 8<sup>th</sup> November, PM Modi's announcement was the breaking news across India. Rs.500 and Rs. 1000 notes (currency) are made illegal from a stroke of midnight. One might think why it's been done? Indian government's goal was to remove all counterfeit (fake) currency from the market which is used in tax evasion, corruption and even in funding terrorist activities. These two currency notes are the most used currency in the Indian market, it had 86% share in the market. This was a very big and risky decision and as some aptly said it is a "Masterstroke". Some even say it is a "Surgical Attack" on black money. In simple words, old Rs 500 and Rs. 1000 notes are worthless now, they are just a piece of paper.

Rumours became rife. Some tried to invest their dying currency in gold. Some contacted their near and dear ones in

this miserable hour. People could get only Rs 4000/ of old denomination exchanged with the new one. Big queues before the banks and ATMs became the order of the day.

Instead of getting shorter, these queues were getting longer with every passing day. The last date for the whole process was 30<sup>th</sup> of December. The persons could deposit the old cash worth Rs 2.5 lac till the said date. The main objective of this move was to curb the black money, corruption and fake money menace. All the people but those who were indulged in malpractices welcomed the move. The whole opposition shook hand against this move under one pretence or the other. They called this decision a draconian law and wanted the govt to roll back it. Tirades were made to target the decision. Govt also carried out counter attacks.

The new currency which replaced the old one is of denomination of 500/- and 2000/-. Though the people faced a lot of inconvenience owing to shortage of funds, they did not criticize the govt for the move. Even they lauded the Modi govt for this big move. Prime Minister also addressed the people many times telling the people that it was a



*mahayajna* and they must offer their own *ahuti* in it.

He further said he was aware the hardships they were suffering from but he sought only 50 days for setting the things right. He jibed at the chief political leaders who have stashed big amount of money and now joined hand to force govt to take the decision back.

The most interesting thing regarding the demonetisation is that people are devising various unique methods for transforming their black money in to white one. Some of these methods are as follows –

- Depositing money in the accounts of their poor relatives and friends.
- Enticing the people with some percentage of money for exchange.
- Asking their employees to stand in the long queues in front of Banks and ATMs for getting money exchanged.
- Hiring labors for some Rupees ranging from Rs 500/- to 700/- for becoming the part of long queues in front of banks/ ATMs.
- Converting black money in to gold.
- Paying a few months salaries in advance.
- Paying back loans forcibly.
- Using their influence / links with bank employees and so on.

The opposite of demonetization is **remonetisation**, which means restoring

the demonetized currency as legal tender. And a lot of political parties from the opposition are fighting for it.

### **Impact of Demonetization on Indian Society/ Economy –**

We shall see a great impact of this move of the Central Govt on Indian Society and Economy. The first impact shall be that people will have lower expenditure power. With that they will not be able to purchase luxurious things. There shall be no ostentatious expenditures on marriages and other ceremonies. So the society will grow lesser materialistic and people more prudent. With the fake money destroyed, Indian economy will see a big boom and the so far booming real estate sector shall fall on the ground.

The things shall be cheaper. Indian Currency shall get respect at the international market. There shall be a great check on the terror-related funding and therefore on terrorist activities. Corruption shall be down to a great extent as people will stop the tendency of accumulating money using wrong means.

It will a bridge the gap between the haves and the have-nots. However, there may be some difficulties for a couple of months. But this inconvenience shall be temporary and for short-term.

Demonetization is a generations' memorable experience and is going to be one of the economic events of our time. Its impact is felt by every Indian citizen. Demonetization affects the economy through the liquidity side. Its effect will be a telling one because nearly 86% of currency value in circulation was withdrawn without replacing bulk of it.



As a result of the withdrawal of Rs 500 and Rs 1000 notes, there occurred huge gap in the currency composition as after Rs 100; Rs 2000 is the only denomination.

Absence of intermediate denominations like Rs 500 and Rs 1000 will reduce the utility of Rs 2000. Effectively, this will make Rs 2000 less useful as a transaction currency though it can be a store value denomination.

Demonetization technically is a liquidity shock; a sudden stop in terms of currency availability. It creates a situation where lack of currencies jams consumption, investment, production, employment etc. In this context, the exercise may produce following short term/long term/, consumption/investment, welfare/growth impacts on Indian economy. The intensity of demonetization effects clearly depends upon the duration of the liquidity shocks. Following are the main impacts. Demonetization is not a big disaster like global banking sector crisis of 2007; but at the same time, it will act as a liquidity shock that disturbs economic activities.

➤ **Liquidity crunch (short term effect):** liquidity shock means people are not able to get sufficient volume of popular denomination especially Rs 500. This currency unit is the favourable denomination in daily life. It constituted to nearly 49% of the previous currency supply in terms of value. Higher the time required to resupply Rs 500 notes, higher will be the duration of the liquidity crunch. Current reports indicate that all security printing press can print only 2000 million units of RS 500 notes by the end of this year. Nearly

16000 mn Rs 500 notes were in circulation as on end March 2016. Some portion of this were filled by the new Rs 2000 notes. Towards end of March approximately 10000 mn units will be printed and replaced. All these indicate that currency crunch will be in our economy for the next four months.

➤ **Welfare loss for the currency using population:** Most active segments of the population who constitute the 'base of the pyramid' uses currency to meet their transactions. The daily wage earners, other labourers, small traders etc. who reside out of the formal economy uses cash frequently. These sections will lose income in the absence of liquid cash. Cash stringency will compel firms to reduce labour cost and thus reduces income to the poor working class.

There will be a trickle up effect of the liquidity chaos to the higher income people with time.

➤ **Consumption will be hit:** When liquidity shortage strikes, it is consumption that is going to be adversely affected first.

Consumption ↓→ Production ↓→  
Employment ↓→ Growth ↓→ Tax revenue ↓

➤ **Loss of Growth momentum-** India risks its position of being the fastest growing largest economy: reduced consumption, income, investment etc. may reduce India's GDP growth as the liquidity impact itself may last three-four months.

➤ **Impact on bank deposits and interest rate:** Deposit in the short term may rise, but in the long term, its effect will come down. The savings with the banks are actually liquid cash people



stored. It is difficult to assume that such ready cash once stored in their hands will be put into savings for a long term. They saved this money into banks just to convert the old notes into new notes. These are not voluntary savings aimed to get interest. It will be converted into active liquidity by the savers when full-fledged new currency supply take place. This means that new savings with banks is only transitory or short-term deposit. Most of the savings are obtained by biggie public sector banks like the SBI. They may reduce interest rate in the short/medium term. But they can't follow it in the long term.

➤ **Impact on black money:**

Only a small portion of black money is actually stored in the form of cash. Usually, black income is kept in the form of physical assets like gold, land, buildings etc. Hence the amount of black money countered by demonetization depend upon the amount of black money held in the form of cash and it will be smaller than expected. But more than anything else, demonetization has a big propaganda effect. People are now much convinced about the need to fight black income. such a nationwide awareness and urge will encourage government to come out with even strong measures.

➤ **Impact on counterfeit**

**currency:** the real impact will be on counterfeit/fake currency as its circulation will be checked after this exercise. Demonetization as a cleaning exercise may produce several good things in the economy. At the same time, it creates unavoidable income and welfare losses to the poor sections of the society who gets income based on their daily work and those who doesn't have the digital transaction culture. Overall

economic activities will be dampened in the short term. But the unmeasurable benefits of having more transparency and reduced volume of black money activities can be pointed as long term benefits.

**Impact of demonetization within India and foreign Relations:**

Demonetization has a big impact on Indian market and citizens like you and me. People flocked the banks to changed their currency and stood in long lines in front of bank and ATMs for hours to draw their money. Surely, we have problems in but we also need to understand the importance of it. Just imagine if it was told a month ago, then all black money launderers could have managed their money in this or that form. That's why it has to be a sudden and surprise act.

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## Demonetization – Socio- Economic dimensions in India

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### Abstract:

Demonetization is the act of stripping a currency unit of its status as legal tender. Currency includes coins and paper notes of different denominations issued by the Central Bank of a country duly backed by the sovereign authority. Every banknote in a country is a promissory note by the government and acts as a legal tender duly signed by the head of the Central Bank. The purpose behind demonetization move by the government was aimed to address objects outlined by the Prime Minister to unearth huge sums of black money stashed in currency notes, to root out corruption from the system, reduction of counterfeit currency notes already in circulation, root out terror funding and to inculcate a culture of digital payments in the economy through use of credit and debit cards, Internet banking, e-wallets and mobile apps.

**Key words:** Central Bank, currency notes, circulation

### Introduction

Prime Minister Narendra Modi announced that Rs. 500 and Rs. 1000 notes will be pulled from circulation, effective from midnight of November 8, 2016. Stating that the move was essential to fight “disease of black money’, PM said that Rs. 500 and Rs. 1000 notes must be deposited at post offices and banks by the end of December. In his first ever such address that lasted for nearly 40 minutes, the Prime Minister said Rs 500 and Rs 1000 notes “will not be legal tender from midnight tonight” and these will be “just worthless piece of paper.” He assured the nation that the notes of Rs 100, 50, 10 and coins of all denominations will remain legal tender and will not be affected and that “this step will strengthen the hands of the common man in the fight against black money.” (Twitter/@ANI\_news)

Demonetization is the act of stripping a currency unit of its status as legal tender.

Currency includes coins and paper notes of different denominations issued by the Central Bank of a country duly backed by the sovereign authority. Every banknote in a country is a promissory note by the government and acts as a legal tender duly signed by the head of the Central Bank. The following is printed on an Indian currency of 100 Rupees note: “I promise to pay the bearer the sum of one hundred rupees”. To demonetize means to take away the promise of it being the legal tender of the said bank notes, and thus depriving it of its monetary value by the sovereign authority. (www.investopedia.com)

The purpose behind demonetization move by the government was aimed to address objects outlined by the Prime Minister to unearth huge sums of black money stashed in currency notes, to root out corruption from the system, reduction of counterfeit currency notes already in circulation, root out terror funding and to inculcate a culture of





digital payments in the economy through use of credit and debit cards, Internet banking, e-wallets and mobile apps.

The government called the step a move towards digital India. In an affidavit filed in the Supreme Court, the Government justified utmost secrecy in implementation of the demonetization scheme in view of the enormity of its impact and also to stop terror funds and drug cartels operating with fake currency notes. This move by the government forced people to rush to their respective banks for exchange and deposits, thereby disclosing their income.

**Social Dimension-** After the announcement, the immediate mood of the nation was that of victory and jubilation especially in the backdrop of surgical strikes in the neighboring country. However, the mood soon turned sour especially in the rural area because of extreme hardship faced by people both for exchange and deposit of their old currencies in their own account. In the hinterlands of India, people are waiting for days outside banks due to unavailability of cash. Farmers are in extreme stress as they do not have cash to buy seeds for the Rabi season. Many weddings were scheduled in the month of November and families are facing cash crisis as the government has allowed withdrawing only Rs.2.5 lakh per family. The move is aimed at converting India into a digital economy, but there is a difference between idealism trying to imitate other countries without taking into account the pragmatic and social difficulties faced by a layperson for his daily needs.

**Economic Dimension-** Economists have welcomed the

government's focused attack on black money as a long-term initiative. However, in the short term, the ripples of demonetization will be felt for some time. When 86 percent of the cash in circulation is declared as illegal tender, it creates an immediate cash crunch in the economy and paralyzes all economic activity. Cash crunch in the economy has led to fall in demand of the consumer products, which will further lead to loss of employment in the short term at least for those in the lower pyramid of the society. Most active segments of the population who constitute the base of the pyramid use cash to meet their transactions. The daily wage earners, laborers, small traders who use cash frequently run the risk of losing their income in the absence of liquid cash.

Cash stringency will compel firms to reduce labour cost, thereby reducing income to the poor working class. This will ultimately slow down growth and revenue for the government.

People have already switched to savings mode as there is a limit on cash withdrawal in banks and ATMs which is causing huge economic and social hardship to many people. However, the move is a blow to the parallel economy and will also stop terror funding and the circulation of fake currency notes. People having cash surplus have to deposit them in bank for new notes and this will make declare their source of income, if the deposit is in excess of their Income Tax returns.

Banks and Financial Institutions across India were recently suffering from severe bad loans and Non-Performing Assets. One bold move by the government



has made the banks cash rich as people are lining up to deposit their old currencies. Banks are today in a much better position to finance big projects due to its increased liquidity. However, it is yet to be seen how the old currency deposited in banks is used to finance or re-finance big loans to corporate and Industrialists.

**Impact on Agriculture:** Cash is the primary mode of transaction in agriculture which contributes 15% to India's total output. Formal financing is significantly from cooperative banks, which are barred from exchange or deposit of demonetized currency. Agriculture is also impacted through sale, transport, marketing and distribution of ready produce to wholesale markets or mandis which are dominantly cash dependent.

**Small Scale Enterprises and People in the Unorganized Sector:** The effect of demonetization has severely impacted the small enterprises that run their daily business mostly in cash. Lack of enough bank branches in the rural India has compounded their business losses due to sudden squeezing of cash from the market.

**Real Estate and Gold:** The move to demonetize old currencies is a big blow to the real estate market as most of the untaxed and unaccounted money in India resides in this sector. The current demonetization will make it extremely difficult for any buyer to pay in cash. Hence dealing in this sector will create an immediate negative impact on demand which will lead to fall in prices. This move will definitely relieve the genuine

home buyers. Real estate investment had become one of the best ways to park illegal and unsolicited wealth by the corrupt. This move will surely hurt them and the real estate developers in a big way. However, on the flip side, those workers engaged in the sector may be laid off or retrenched from their job.

**Tourism:** The demonetization drive has taken a huge toll on the tourism sector, especially hotels, restaurants and cabs which depend heavily on cash to cater to tourists coming from different parts of the country. Indians travelling abroad and foreigners travelling to India for recreational or medical, purpose are severely hit by the cash crunch. It has also affected those travelling on pilgrimage to their holy sites. People travelling abroad are also facing problems as they are unable to exchange their currency due to its non-availability.

**District Central Co-operative Banks (DCCBs) and Primary Agricultural Credit Societies (PACS)** The RBI has asked District Central Co-operative Banks (DCCBs) and Primary Agricultural Credit Societies (PACS) not to accept the old Rs.500, Rs.1,000 currency note deposits or exchange those notes with the new currency notes. This meant that lenders at these banks can only deal with permissible denominations of Rs.100 and below or take deposits in new currencies which are hardly available with them. This has effectively left many smaller cooperative banks with a few thousand rupees of funds. Cooperative banks are particularly important for farmers and lower income groups who want small loans in less time. The Banking Correspondents (BCs) who operate in



areas having no bank branches have been left out of this massive exercise of currency exchange. This move by the RBI has taken away the trust of common man away from cooperative banks as customers are wary of depositing their hard earned money. The current crisis could lead to permanent impairment if cash crunch continues for a few more weeks.

The demonetization drive by the Prime Minister surely is a bold and decisive move to root out corruption from the society, to tackle terror funding and fake currencies from the system. It is also a sure step towards a digital way of life as it infuses a cultural change among the citizens of India to go cashless.

**Counter views of experts:**

Raghuram Rajan, ex-RBI Governor

Unfortunately, my sense is the clever find ways around it. Black money hoarders find ways to divide their hoard into many smaller pieces. A fair amount of unaccounted cash is typically in the form of gold and therefore even harder to catch. You find that people who haven't thought of a way to convert black to white, throw it into the hundi in some temples. I think there are ways around demonetization. It is not that easy to flush out the black money. I would focus more on incentives that lead to generation and the retention of black money. (<http://www.hindustantimes.com>)

Amartya Sen, Nobel Laureate

Telling the public suddenly that the promissory notes you have, do not promise anything with certainty, is a more complex manifestation of authoritarianism, allegedly justified---or

so the government claims---because some of these notes, held by some crooked people, involve black money. At one stroke the move declares all Indians---indeed all holders of Indian currency---as possibly crooks, unless they can establish they are not. (Indianexpress.com)

So, the demonetization scheme is not an end in itself but surely it is a means to achieve further ends. The demonetization must be accompanied by tax reforms and tax compliance. As per the report, only 3-4 percent of Indian citizens pay their direct taxes which make the government collect more revenue from indirect taxes. Concrete steps shall be taken by the government to increase Direct Tax compliance and to balance it with lowering of indirect taxes. Demonetization will not stop hoarding of black money in future by people. Black money is nothing but untaxed or unaccounted money. If tax compliance is raised to 90%, it will not only account for the wealth created but shall also increase tax revenue of the government. It will also ease up the Tax-GDP Ratio of India, thereby helping to improve India's credit rating in international economy.

Tax reforms shall also accompany election reforms. If all election expenses are made compulsorily to be paid through "Cheques", then it will surely put a lid on the unaccounted expenses. The provision of election funding shall be removed from the Companies Act, 2013 and the same must be shifted to Representation of People's Act, 1951. The Election Commission must start its financial wing somewhat on the lines of Enforcement Directorate which shall work directly under the supervision of Chief Election



Commissioner of the Election Commission of India.

One of the main aims of demonetization process is to make use of digital payments through debit/credit cards and using other apps. However, with an increase cyber frauds. Hence there is a need to develop sufficient infrastructure to deal with the future. We need to appoint specialist officers having expertise and technical knowhow in their respective fields. It is time to diversify our prestigious All India Service. An All India Forensic Service will be a right step in the right direction at the right time.

We need to increase funding for cyber security and equip forensic labs in every district with the latest technological equipment. These labs must be under specialist officers having special jurisdiction who can deal with the technical aspects of the crime and help the police force in their investigation.

Finally, in a nutshell, such a huge step always comes with a cost and this time unfortunately the cost was paid by

the common man. In the backdrop of demonetization, we need to see the balance between the positives and the negatives. Surely there are enough positives and the negatives. Surely there are enough positives from this move by the government, but the negatives cannot be wished away.

When 86 percent of the economy is driven out of cash, a society truly becomes cashless. The government should at least have made necessary arrangement for cash disbursal before making such a massive and impactful decision whose ripple will be felt in times to come.

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## Effects of Black Money on Indian Economy

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**Abstract:** The main findings of various studies on black income reveal that the rate of growth of black income generation is faster than the rate of growth of Gross National Product. The black money has negative consequences on the economy in many ways. The direct effect of black income is the loss of revenue to the state exchequer. It encourages luxurious and conspicuous consumption and transfer of funds from the production of essential commodities to the production of non-essential commodities. Therefore, many measures have been taken by the government of India from time to time to unearth the black money in the economy since independence such as Voluntary Disclosure Schemes, Demonetization of high value currencies, issue of special bearer bonds etc. The recent Demonetization of high value currency notes of Rs.500 and Rs.1,000 is a historic step to fight corruption, black money, terrorism and counterfeit currency.

**Keywords:** Black money, Indian economy, Gross National Product, Demonetization,

### Introduction

The emergence of the black economy started during the Second World War when due to shortages experienced in certain essential goods, controls and rationing had to be introduced but this was a phenomenon which was expected to end after the Second World War. However, when the country has attained independence and wedded to planned economic development, more avenues of investment in a large number of industries were opened. With the emergence of India as a mixed economy, both public and private sectors were expected to promote investment and output. The objective of the public sector investment was to increase social gain and welfare of the people. On the other hand, private sector worked with the aim of profit maximization. With the

expansion of economic activity in the post independence period, the magnitude of the black sector has grown to such an extent that it has begun to play a dominant role in moulding state policies, in changing the structure and composition of output, in promoting a class which derives its maximum source of power from black money. Obviously, the activities of the black money operators have resulted in the establishment of a parallel economy which has a serious threat to stability and growth of the official economy. The introduction of the Economic Reforms in 1990's and the policy of globalisation provided opportunities for private entrepreneurship in participating in economic activities more extensively. Even though their contribution to economic growth and prosperity was



impressive, the phenomenon of Black Money still persists.

**Objectives:** The presentation of this paper has two-fold objectives.

1. To evaluate the estimates of black money and its impact on the Indian economy.
2. To review the measures undertaken to unearth the black money in India.

The operational definition of black income and black economy considered for this paper is based on Arun Kumar (1999). The black economy is defined as the totality of economic activities in which black incomes are generated. Black incomes are defined as factor incomes, which should have been reported to income tax authorities but are not. In addition to the tax dimension, the black money is a serious issue judged from the following perspective. Substantial amount of black income is redirected towards unproductive profit-seeking activities. Unproductive activities produce large returns, but do not produce goods or services. These are evidently profitable activities, but are wasteful, as they yield no output. This is a considerable wastage of human resources, as people could otherwise be doing something of higher productivity. So, black economy is a serious drain of precious resources for any given country and therefore steps should be taken to minimize its generation.

#### **Review of the estimates of black income in India:**

To understand the impact of the black economy, it is essential to have an

estimate of black income over a period of time.

- a. The IMF staff survey has estimated black money in India at 50% of gross national product which was Rs.1,45,141 crores in 1982-83 at current prices.
- b. The estimates of black income prepared by Guptas indicate the highest proportion i.e. 49% of GNP.
- c. There are many other important estimates of black income such as N.Kaldar's estimate, Wanchoo committee estimate, Dr.DK.Rangnekar's estimate, OP.Chopra's estimate, National Institute of Public Finance and Policy (NIPFP) study estimates etc.

The main findings of the various studies of black income are:

- a. The amount of black money has not only being growing in absolute terms, but also in relative terms as a percentage of GNP.
- b. Black income which was less than 10% of GNP upto 1975-76, begun to grow at a much faster rate thereafter. According to NIPFP estimates for 1983-84, it was in the range of 18-21% of GNP, though as per the estimates of Dr.Suraj B Gupta, it was about 46% of GNP in 1983-84 and rose further to about 51% in 1987-88. According to Arun Kumar (1999), the size of the black economy was 40% by the end of 1995-96.
- c. The rate of growth of black income generation is faster than the rate of growth of GNP.
- d. Higher rate of taxation motivated businessmen and industrialists to go for massive tax evasion.
- e. The political system winked at the growth of black income, but did not



take effective measures to curb the growth of unaccounted income.

### **Consequences of black money:**

The negative consequences of black money on the Indian economy are in many ways.

1. First of all, the direct effect of black money is the loss of revenue to the state exchequer as a result of tax evasion, both from direct and indirect taxes. Since the government is not able to plug the leakage of tax evasion, it has to resort to other avenues of rising funds. So it imposes more taxes on commodities or raises the existing rates of taxation on commodities. This throws a greater burden on the honest tax payer and lead to economic inequality and concentration of wealth in the hands of the unscrupulous few in the country. It is the salaried people who cannot escape taxation suffers and the dishonest tax payer is able to get away and then use the evaded income in luxurious and conspicuous consumption.

2. The availability of black incomes with businessmen and capitalists and the consequent inequalities of income place a large amount of funds at their disposal. This money finds ready outlets in non-essential goods of conspicuous consumption. This has a demonstration effect on all classes of people. It encourages the production of non-essential commodities at the cost of production of essential goods.

3. Black money encourages investment in precious stones, jewellery, bullion etc. This has an adverse effect on growth.

4. Black money has encouraged diversion of resources in the purchase of

real estate and investment in luxury housing. There is large scale undervaluation of property and in this way, lot of black money is made white. This has also pushed the prices of land abnormally. As a consequence, the middle class people are unable to purchase the land for houses. Not only that, a lot of nation's resources used in only making inputs available for luxury housing. Since most of these buildings are registered at undervalued prices, the government loses by way of tax revenue.

5. In our country a part of the black income held in cash and as a consequence there is an abundance of liquidity which becomes available through the accumulation of savings held in the form of cash, gold, silver, bullion etc. This is popularly termed as black liquidity. Thus whenever the government attempts to control excess demand with the help of measures of credit control or rationing, such attempts are frustrated by the huge liquidity provided by black money.

6. Black money results in transfer of funds from India to foreign countries. Such transfers are made possible by violation of foreign exchange regulations through the device of under-invoicing of exports and over-invoicing of imports. The country thus finds itself in a paradoxical situation.

It was due to the pernicious impact of black money on the Indian economy and polity that the Wanchoo committee concluded "it is therefore, no exaggeration to say that black money is like a cancerous growth in the country's economy which if not checked in time, is sure to lead to its ruination."



**Measures undertaken to unearth black money:** It would be desirable at this stage to make the note of the measures undertaken to unearth black incomes since independence. The following are some of the measures undertaken.

1. **Measures to check tax-evasion:** Many steps have been taken by the government of India to check the tax evasion based on the recommendations of various committees and commissions namely The Taxation Enquiry Commission(1953), N.Kaldar's proposals for Indian Tax Reform(1956), The Direct Taxes Administrative Enquiry Committee(1958), Recommendations by the Administrative Reforms Commission(1969), The Direct Tax Enquiry Committee(1971) etc. Most of the recommendations pertained to improvement in tax laws. The various committees felt that tax administration was too weak and ineffective. The penalties imposed under the tax laws were not deterrent enough and the tax administration machinery was not able to book the tax evaders.

2. **Voluntary disclosure schemes:**

From time to time Government of India announced various voluntary disclosure schemes to unearth black incomes. They are Voluntary Disclosure Schemes of 1951, 1965, 1976, 1985, and 1997. But these schemes have proved to be failure to meet the desired objectives, as the amount disclosed under these schemes was small and tax revenue collected was meagre. Under the Income Declaration scheme-2016, the black money holders could come clean by declaring the assets, paying the tax and penalty of 45% thereafter. This scheme yielded Rs.65,250

crores from 64,275 declarations with 45% of it as the revenue to the government.

3. **Special Bearer Bonds Scheme-1981:**

Special Bearer Bonds Scheme-1981 was introduced with an intension to channelize the unaccounted money for productive purposes. These bonds have a face value of Rs.10,000 with a simple interest of 2%. The subscribers of these bonds were granted complete immunity from prosecution and no questions were asked about the sources of income. The interest income and capital gains were exempt from taxation. Despite its liberal provisions, this scheme was able to generate less than Rs.1,000 crores. There was no clear plan to create a fund to use for any productive channels.

### ***Demonetization:***

Demonetization, a powerful weapon to unearth black income, is not new to the Indian economy. In 1946, currency notes of Rs.1000 and Rs.10,000 were withdrawn from circulation. In 1954, currency notes of Rs.1,000, Rs.5,000 and Rs.10,000 were withdrawn. Demonetization did not have a big impact on the country, since less than 5% of population had access to such notes. These demonetization schemes had limited scope and not effective, as black income is held in various other forms besides cash. It also causes inconvenience to the owners of legal currency holders and lot of administrative cost of implementation.

On 8<sup>th</sup> November, 2016 an announcement was made by the honourable Prime Minister of India in an unscheduled live telecast addressed to the nation at 8.15 PM. In the announcement,





he declared circulation of all Rs.500 and Rs.1,000 currency notes as invalid, effective from the midnight of the same day. These notes accounted for 86% of the country's money supply. Our Prime Minister said that this decision will fully protect the interest of honest and hard working citizens of India and that those Rs.500 and Rs.1,000 notes hoarded by the anti-nationals, anti-social elements will become worthless pieces of paper. The Prime Minister also said the steps taken by the government of India would strengthen the hands of the common citizen in the fight against the corruption, black money, money laundering, terrorism and financing of terrorists as well as counterfeit currency. The following are said to be the benefits of the recent Demonetization Policy of the government:

1. This historic step will open up new opportunities for poor, neo-middle class and middle class.
2. Real estate prices, higher education, health care come to within the reach of common citizen.
3. Funding for arm smuggling, espionage, terrorists to be choked.
4. Circulation of large volume of counterfeit currency to end.

However, in the days following demonetization, banks and ATMs across the country faced severe cash shortages. The cash shortages had detrimental effects on a number of small businesses, agriculture, fishery, transportation and construction industry. The poor and the lower middle class people, who rely more on cash for daily activities, are the main victims of the policy. Even several critics also appreciated the act of

demonetization to curb black money, but the manner in which it was carried out by causing hardships to common people, was criticized. However, ordinary Indian have reacted with stoicism, seemingly willing to heed the Prime Minister's call to be patient for 50 days, even though it could be much longer. Despite certain short term troubles, demonetization is certainly going to give boost to the Indian economy in long run. It will boost India's digital economy and pushing cashless transactions in a big way.

**Conclusion:** The black money is a chronic, gigantic and deep rooted problem of the Indian economy. The packages of measures discussed above are all steps in the right direction with in the socio-economic framework of the country. Their success depends on the sincerity and vigour with which they are implemented. As our Prime Minister said, India is certainly going to experience "Acche din" in the near future. As of now, all of us should stand and support this bold move of the Prime Minister and help those needy around us. As rightly said by the Prime Minister "our generation did not get the opportunity of fighting for the freedom of our nation, but today we have the historic opportunity to weed out menace of corruption and black money to secure the future of our nation".

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## BITCOIN A Digital Currency Replaceable with Traditional Currency

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**Abstract:** Bitcoin is a consensus network that enables a new payment system and completely digital currency. It is the first decentralized peer-to-peer payment network that is powered by its users with no central authority or middlemen. From a user perspective, Bitcoin can be considered to be cash for the Internet. Bitcoin can also be seen as the most prominent triple entry bookkeeping system in existence. While there are or have been at least 110 other digital currencies, Bitcoin accounts for 77% of the market value of all digital currencies and an even higher percentage of digital currency users.

**Key words:** Bitcoin, Traditional currency, Virgin Galactic

### Introduction

A Bitcoin is a digital currency, which is used electronically. No one can control it. Bitcoins are not like normal coins and they do not have a physical form like rupees. These are running on computers across the world by using software that solves mathematical problems. It's the first example of Digital currency popularly known as crypto currency.

### Initiation:

The Bitcoin system was firstly developed and introduced by a software engineer named Satoshi Nakamoto as an electronic based logical payment system. The main aim behind Bitcoin is it's an independent currency controlled by users and transferable online with very nominal charges.

**Unique:** Bitcoin is used to buy or sell things online. In the sense, these are like conventional rupees, dollars, or yens,

which are also used digitally. Though, Bitcoin's significant feature is it has a decentralized system. In the sense no one can restrict its control.

**Form:** This is not a traditional currency which is circulated by central authorities. Moreover it's as points to be added to user's accounts and anyone can be as a customer on bit coin group or on a payment network.

**Limit:** The Bitcoin system allows the users to create 21 million coins. Anyhow, those created Bitcoins can also be divided into smaller parts

**Basis:** Traditional currency is always based on gold. Practically, you know that when you pay rupees at bank, you will get some grams of gold back. But Bitcoin system is totally mathematical.

### How does bitcoin work

From a user perspective, Bitcoin is nothing more than a mobile app or



computer program that provides a personal Bitcoin wallet and allows a user to send and receive bitcoins with them. Behind the scenes, the Bitcoin network shares a public ledger called the "block chain". This ledger contains every transaction ever processed, allowing a user's computer to verify the validity of each transaction. The authenticity of each transaction is protected by digital signatures corresponding with the sending addresses, allowing all users to have full control over sending bitcoins from their own Bitcoin addresses. In addition, anyone can process transactions using the computing power of specialized hardware and earn a reward in bitcoins for this service. This is often called "mining". An address is like a bank account into which a user can receive, store, and send bitcoins. Instead of being physically secured in a vault, bitcoins are secured with public-key cryptography. Each address consists of a public key, which is published, and a private key, which the owner must keep secret. Anyone can send bitcoins to any public key, but only the person with the private key can spend them. While addresses are public, nobody knows which addresses belong to which people; Bitcoin addresses are pseudonymous. After depositing your bitcoins into a "wallet", the wallet alerts ("broadcasts") every other user of bitcoins that it contains bitcoins. This information is incorporated into the block chain. The wallet generates a public key accessible to anyone and a private key (unless your

wallet is on an exchange, such as Bitstamp) or address that authorizes sending bitcoins to other public addresses. If you want to, say, purchase a flight on Virgin Galactic, you contact them, make a user account (e.g., your name), and then tell them that payment will come from your public key. You then go to your wallet or exchange and broadcast the amount from your public key to their public key. This is published on a peer-to-peer

### Attributes/Features

**Decentralized:** The Bitcoin system isn't controlled by any central authority. Every machine produces Bitcoins and makes transactions as a part of the network group, and the machines work together.

**Ease:** However, everyone can set up a Bitcoin address instantly as email addresses, no proper information required no fee payable.

**Privacy:** Any users can operate multiple Bitcoin addresses, and they aren't interlinked to their names, addresses, or other information.

**Transparency :** Bitcoin records details of every transaction that occurs on the network in a high version of a ledger known the blockchain. The blockchain reveals how many Bitcoins are stored on the address but they don't display the names.

**Fee:** No transaction charge is collected by Bitcoin.

**Rapid :** Bitcoin network processes the transactions very quickly within minutes. You can send and receive money anywhere across the world on Bitcoin network.



**Reliable:** We cannot return the Bitcoins which we sent once. Unless the recipient sends back to you them.

**Demerits**

1. **Fluctuations:** the value of Bitcoin is frequently fluctuating due to many reasons. They may be economic uncertainties like inflation, recession and depression.
2. **Protection:** Bitcoin protection is still challenging as the rapid technological developments may become a threat to security.
3. **Coding:** the Bitcoin system is completely depending on mathematical coding. So it is definitely error friendly.
4. **Usage:** usage is somewhat difficult because it is completely depending upon electronic machines like computers. It can be inconvenient to some users.
5. **Understanding:** Awareness of Bitcoin takes long time in the countries like India due to its educational levels.

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6. **Objectives and Methodology:** Describe the materials used in the experiments and methods used for data collection, statistical tools used in data collection
7. **Results/findings and discussion:** This segment should focus on the fulfillment of stated objectives as given in the introduction. It should be contain the findings presented in the form of tables, figures and photographs.
8. **Conclusion:** Analysis conclude with suitable and effective suggestions (if any)
9. **Style of Referencing:** The list of all references should be alphabetically arranged. It must be at the end of the manuscript. The author (s) should mention only the actually utilized references in the preparation of manuscript and they are supposed to follow Harvard Style of Referencing. The author (s) is supposed to follow the references as per following:

**Books:**

Sundara Rao M., (1996), "Tribal Development." Tata McGraw, Hill, New Delhi, page. 250

**Contributions to books:**

Ramana T.V (2008) , " Education- A multi-Dimensional weapon for all-round Development: Edited by D.Pulla Rao, Development of Education-Emerging Dimensions in 21<sup>st</sup> Century, Chapter 13, pp.190-202.

**Journal and other articles:**

Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

**Conference papers:** Chandel K.S. (2009): "Ethics in Commerce Education." Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

**Unpublished dissertations and theses:**

Kumar S. (2006): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

**Online sources:** Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

**Website:** Kelkar V. (2009): Towards a New Natural Gas Policy, Economic and Political Weekly, referred on February 17, 2011 <http://epw.in/epw/user/viewabstract.jsp>

**Note:** *Papers relating to the Languages may be followed as their research (Ph.D/M.Phil) style*

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