
Impact of Demonetisation on Consumer's Financial Transactions

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ABSTRACT:

Declaration of 86 percent of currency notes as illegal tender in just a blink of time on eve of 8th November 2016 mandated the creation of immediate interruption in daily lives. The chaos was created in every strata of the society whether upper, middle or lower. Where some welcomed the move as it was seen for curbing black money, many are suffering by this movement. But the supreme sufferers of this move were the informal sector of Indian economy, where cashless transactions are minimal. The Government decision to remove existing high-denomination currency notes of Rs.500 & Rs.1000 from circulation lead to serious short term disruption, especially impacting small traders, wholesalers & those who earn their livelihood in cash, such as vegetable vendors, kirana stores, etc. with 86% of the currency taken away with the withdrawal of old Rs.500 & Rs.1000 currency notes, small businesses – from vegetable vendors & small stores that use cash as mode of transaction were the worst hit. The study aims to find out the problems faced by consumers during demonetization phase & measures which were taken by them and the government to revive the demonetization impact on the economy.

Keywords: *Cashless payments, Demonetization, Informal sectors, Rural population.*

INTRODUCTION:

India has long – standing relationship with demonetisation. once in 1946 and then in 1978 and in both cases, the goal was to combat tax evasion by "black money" held outside the formal economic system. In 1946, the pre-independence government hoped demonetization would penalize Indian businesses that were concealing the fortunes and this step was expected to change the face of the economy. On 8 November 2016, the Government of India announced the demonetisation of all ₹500 and ₹1,000 banknotes of the Mahatma Gandhi Series. The government claimed that the action would curtail the shadow economy and crack down on the use of illicit and counterfeit cash to fund illegal activity and terrorism. The sudden nature of the announcement and the prolonged cash shortages in the weeks that followed created significant disruption throughout the economy, threatening economic output.

OBJECTIVES

1. To study the impact of demonetization on consumers
2. To analyse the problems that have taken place due to demonetisation.
3. To find the association of gender of the respondents and their opinion on facing problems in buying basic needs due to demonetisation.
4. To find the association of marital status of the respondents and their opinion on cashless payments
5. To study the remedial measures taken by the government to solve the problems or chaos caused due to demonetization

RESEARCH METHODOLOGY:

-) Type of study: Survey method
-) Sampling method: Convenience sampling method.
-) Sources of data collection Primary data (Questionnaire method and personal interview) and Secondary data (Journals, books and websites)
-) Method of data analysis: Percentage method and Chi –square method.

LITERATURE REVIEW:

Mr Brijesh Singh and Dr. N. Babitha Thimmaiah (January 2017) in their research paper studied the effect of demonetization in terms of “Won or lost”. By using the secondary data method i.e. articles, they had conducted their study. In the study report they had tried to explain the concept of cashless economy by taking the reference of Woodford (2003). It is not all about how much money you are having in your wallet, you can pay by any of the bank card or banking transfer. In the research paper they had show the effect of demonetization in the areas like, cash rush, stock market, transportation, agriculture, banking, business, income tax, railways etc. There are no exact proofs of exact black money holding in cash but studies show that around 8% of black money is held in cash. According to the Centre for Monitoring the Indian Economy (CMIE), the transaction cost of demonetization until 30th December, 2016 is estimated around Rs. 1.28 lakh crore. As per R. Gandhi, Deputy Governor of RBI, speaking on 7th December 2016, Rs. 11.5 lakh crore has been already deposited at bank out of total 14.5 lakh crore which means still 3 lakh crore are unidentified.

Sherline T.I (December 2016) has undertaken the research on “Demonetization as a prelude to complete financial inclusion “. The main objective of the study was to understand the importance of demonetization as a measure of financial inclusion. Financial inclusion mainly stands for, the delivery of the financial services at the affordable cost to the low income segments of society. As per the report financial inclusion can boost the savings as well as credit availability. The study shows that this move of the Government has likely to create long term benefits. Moreover medium to long term Current account and Saving account (CASA) ratio could improve. Moreover demonetization would reduce cash transaction the real estates, which may decrease the price of that avenues which make it affordable to general public. Moreover the near future inflation will decrease due to less cash transaction.

M. Angel Jasmine Shirley (February, 2017) has studied about the “Impact of Demonetization in India” in her research paper. In the first part of the paper, the impact over Indian economy had been explained. As per the research, the BSE SENSEX and NIFTY 50 stock had been fall near about 6% on the very next day. Moreover on the later on days, the country felt severe shortage of the cash. Moreover due to lack of cash overall production had decreased. Banks had not enough new currency for the exchange of the old notes, which breakdown the overall economic system. Moreover in the paper impact of the demonetization over world economy also shown. The first thing that happened after demonetization was decrement in to overall consumption of commodities which results in to decrease in the export-import. Moreover there was a major impact over the domestic sectors, reduction in the Government liability, farming and fishing industry, business, drop in industrial output, black money, impact over counterfeit currency, hawala, bank deposits, jewellery and real estate, IT sector etc. Findings in this sectors says that, though demonetization is a good concept to grab the black money holders, most of black money is kept in form of land, gold, real estate etc. “Not all black money is in cash, not all cash is black money”. People face too much inconveniency due to improper planning about post demonetization. Moreover for number of days they had spent their time by standing in queues. To decline over all negative impact of it, ways are to focusing over tax aspect, cash availability, and elimination of loopholes.

Chabi Gupta (December 2016) had studied about the payment banks and demonetization. To explain her research point, she had firstly explaine about the Indian banking sector. Payment banks are generally niche banking set up by RBI , payment banks provides small saving accounts and payment services mainly for low income household, small businesses etc. Then she had explained the overall impact of demonetization move.

According to the Reserve Bank Of India (RBI) figures, as of March 2016 currencies in circulation amounted to Rs.16,415 billion of this 500 notes were of around 47.8% in value and 1000 were of 38.6% in value. Jointly they had 86% value in the economy. Many banks like HDFC, ICICI and AXIS are exploring to launch the contact less debit and credit card. It will allow the customers to use card without swipe.

DATA ANALYSIS AND INTERPRETATION:

TABLE 1: RESPONDENTS' OPINION ON THE EVIL OF CORRUPTION AND BLACKMONEY BEING ELIMINATED THROUGH DEMONETISATION.

PARTICULARS	Number of Respondents	Percentage
Yes	60	60
No	32	32
May be	8	8
Total	100	100%

INFERENCE: It is inferred that 60% of the respondents agree that with demonetization the evil of corruption and black money can be eliminated, 32% of the respondents do not agree and 8% of the respondents are unsure about the same.

TABLE 2: PROBLEMS FACED BY RESPONDENTS IN PURCHASING BASIC NEEDS OF LIFE.

PARTICULARS	Number of Respondents	Percentage
Yes	79	79
No	21	21
Total	100	100%

INFERENCE: It is inferred that 79% of the respondents faced problems in purchasing the basic needs of life while 21% of the respondents do not agree to the same.

TABLE 3: NUMBER OF TIMES THE RESPONDENT VISITED ATM DURING DEMONITISATION PERIOD

PARTICULARS	Number of Respondents	Percentage
1-5 times	33	33
6-10 times	15	15
10-20 times	22	22
20 above times	5	5
Never visited	25	25
Total	100	100%

INFERENCE: 33% of the respondents of visited ATM's 1 to 5 times, 15% of the respondents visited ATM's 6 to 10 times, 22% of the respondents are visited ATM's 10- 20 times, 20% of the respondents are visited ATM's above 5 times and 25% of the respondents never visited ATM's..

TABLE 4: RESPONDENT OPINION ON THE AREA BEING WORST HIT ON ACCOUNT OF DEMONITISATION

PARTICULARS	Number of Respondents	Percentage
Villages	35	35
Semi urban areas	20	20
Urban areas	26	26
All areas	19	19
TOTAL	100	100%

INFERENCE: It is inferred 35% of respondents agree that villages were worst affected because of demonetization, 20% of respondents agree the semi urban areas were worst affected, 26 % of respondents agree that urban areas were worst effected and 19 % said all areas were worst affected.

TABLE 5: RESPONDENT OPINION ON CATEGORY OF CONSUMERS WHO WERE WORST HIT FOR THE TRANSACTIONS

PARTICULARS	Number of Respondents	Percentage
Poor people	36	36
Small business vendors	12	12
Bankers	3	3
middle class family	18	18
Hospitals and emergency services	18	18
Businessman	13	13
All of above	8	8
Total	100	100%

INFERENCE: It is interpreted that 36% respondents agree that poor people were worst hit because of demonetization, 12% respondents agree small business vendors were worst hit because of demonetization, 3% respondents agree that bankers were worst hit because of demonetization, 18% respondents agree that middle class people were worst hit because of demonetization, 18% respondents agree that hospitals and emergency services were worst hit because of demonetization, 13 % respondents agree that businessmen were worst hit because of demonetization.

TABLE 6: RESPONDENTS OPINION ON THE HANDLING OF OLD CURRENCY NOTES {500& 1000}

PARTICULARS	Number of Respondents	Percentage
Paid loans	11	11
Paid bills like power...	4	4
Advance bills payments in hospitals	2	2
Purchased railway tickets	9	9
Deposited in banks filled extra fuel	35	35
Filled extra fuel	25	25
Made purchases for future	9	9
Any other	5	5
Total	100	100%

INFERENCE : It is inferred that that 11% of the respondents paid loans with old currency notes of 500& 1000 notes ,4% of the respondents paid utility bills like power and water,2% of the respondents paid Advance bills payments in hospitals,9% of the respondents purchased railway tickets,35% of the respondents deposited in banks ,25% of the respondents filled diesel and petrol,9% of the respondents made purchases for future and 5% of them used them for any other purpose .

TABLE 7: MEASURES TAKEN BY THE GOVERNMENT TO REDUCE THE CHAOS IN DEPOSITING OLD CURRENCY NOTES IN BANK

PARTICULARS	Number of Respondents	Percentage
They gave special preference to senior citizens by opening bank early	4	4
Separate queue for senior citizens to deposit cash in banks	6	6
Banks were kept open on Saturday and Sunday	90	90
Any other	0	0
Total	100	100%

INFERENCE: For 4% of the respondents the government should have given special preference to senior citizens by opening bank early, for 6% of the respondents there should have been separate queue for senior citizens to deposit cash in banks, for 90% of the respondents the banks should have been kept open on Saturday and Sunday.

TABLE 8: AWARENESS ABOUT CASHLESS PAYMENT APPS

PARTICULARS	Number of Respondents	Percentage
Yes	52	52
No	48	48
Total	100	100%

INFERENCE: 52% of the respondents are aware about the cashless payment apps while 48% of the respondents are not aware about the same.

TABLE 9: RESPONDENT'S OPINION ON THE GOVERNMENT BEING READY TO DEAL WITH DEMONITISATION EFFECT

PARTICULARS	Number of Respondents	Percentage
Yes	64	64
No	36	36
Total	100	100%

INFERENCE: According to 64% of the respondents the government is ready to deal with the demonetisation effect while 36% of the respondents do not think so.

TABLE 10: RESPONDENT'S OPINION ON THE QUALITY OF NEW CURRENCY OF 2000& 500 NOTES

PARTICULARS	Number of Respondents	Percentage
Best	39	39
Good	26	26
Bad	12	12
Worst	23	23
Total	100	100%

INFERENCE: For 39% of the respondents, the quality of new currency notes is by far the best, for 26% of the respondents its good, for 12% of the respondents its bad and for 23% of the respondents its worst.

CHI-SQUARE ANALYSIS:

TEST – 1

ASSOCIATION OF GENDER OF THE RESPONDENTS AND THEIR OPINION ON FACING PROBLEMS IN BUYING BASIC NEEDS DUE TO DEMONETISATION

The following are the steps for calculation of Chi-square test:

- 1. NULL HYPOTHESIS (H0):** There is no significant difference between the gender of the respondents and their opinion facing any problem in buying basic necessities of life
- 2. ALTERNATIVE HYPOTHESIS (H1):** There is significant difference between the gender of the respondents and their opinion facing any problem in buying basic necessities of life

STEP-2 LEVEL OF SIGNIFICANCE:

Level of significance = 5 DEGREES OF FREEDOM $(c-1)(r-1)=(2-1)(2-1)=1$

STEP-3 TEST STATISTIC:

CHI-SQUARE $(\chi^2) = (O-E)^2/E$

STEP-4 CALCULATION

OBSERVED FREQUENCY (O)	EXPECTED FREQUENCY (E)	(O-E)	(O-E) ²	(O-E) ² /E
35	34	1	1	0.25
15	16	-1	1	0.25
33	34	-1	1	0.25
17	16	1	1	0.25
			TOTAL (χ^2) 4	1.00

STEP-5 CONCLUSION:

DECISION: Since the calculated value is 1.00 is less than the critical value, at 5% level of significance and 1 as the degree of freedom. Therefore accept the null hypothesis. i.e. There is no significant difference between the gender of the respondents and their opinion facing any problem in buying basic necessities of life

TEST-II

ASSOCIATION OF MARITAL STATUS OF THE RESPONDENTS AND THEIR OPINION ON CASHLESS PAYMENTS

The following are the steps for calculation of Chi-square test:

STEP 1:

- 1. NULL HYPOTHESIS (H0):** There is no significant difference between gender of the respondents & their awareness on different apps for cashless payments
- 2. ALTERNATIVE HYPOTHESIS (H1):** There is a significant difference between gender of the respondents & their awareness on different apps for cashless payments

STEP-2 LEVEL OF SIGNIFICANCE:

Level of significance =5

Degree of freedom=(c-1)(r-1)=(2-1)(2-1)=1

STEP-3 TEST STATISTIC:

CHI-SQUARE (χ^2) = (O-E)²/E

STEP-4 CALCULATION

OBSERVED VALUES(O)	EXPECTED VALUES(E)	(O-E)	(O-E)	(O-E) ² /E
35	33.28	1.72	2.95	.249
29	30.72	1.72	2.95	.249
17	18.32	1.72	2.95	.249
19	17.28	1.72	2.95	.249
			O-E 11.83	0.997

STEP-5 CONCLUSION:

DECISION: Since the calculated value 0.997 is less than the critical value 5.991 at 5% of level of significance and 1 as the degree of freedom. Accept the null hypothesis. i.e. there is no significant difference between the marital respondent of the respondents and their opinion on cashless payments

1. NotesDemonzzzzzzz

SUGGESTIONS

- The government should have set digital literacy booths outside banks especially near the banks of rural areas. As the other currency notes also were not available as and when the need arised, the government should have printed smaller currency notes in good quantity.
- There should have grant of subsidy for using smart phones or laptops for making digital payments. There should have Incentives for RTGS and NEFT .The cash withdrawal limit should have increased so that the chaos should have created. There should be increase in daily cash withdrawal limits from ATM's also.
- The government should have extended the bank working hours so that deposits can be made smoothly. Hospitals and emergency cases should have been exempted from their impact of demonetization Banks should have kept on Saturday and Sunday also that working people can here deposited their money into banks.

CONCLUSION

If the above suggested measures were taken by the government on timely basis, then the impact of demonetization would have reached its destined way. The decision of demonetization affected the Indian economy to a larger extent but demonetisation as the only way to curb black money and fake currency note is not the only and ultimate solution to solve the economy problems. Still it can be concluded that people became more conscious about online banking due to demonetisation. Bank employees had work continuously without taking day off. Therefore it is concluded that demonetisation as a tool proved fruitful atleast for creating fear in the minds of black money holders.

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