History Research Journal

ISSN: 0976-5425
Vol-5-Issue-5-September-October-2019

Demonetization in India

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Abstract:

It is a process of denudates of status of a currency unit generally in this an old currency is replaced by new currency. The main objective of demonetization was to put a restriction on black money running as shadow economy because of its sudden announcement and poor planning it results into various pretests riots arid strikes. By demonetization we can increase GDP or Gross Domestic Product level. The industrial production also suffered a big loss due to cash shortage.

Key Words: Demonetization, Currency, Black Money.

Introduction:

It occurs when the change in the national currency or we can say that it is a situation when the reserve bank of India withdraw the old currency. In India the demonetization had not only been carried in 2016 but in 1946 Rs.1000 and Rs. 1000 had been demonetized by Reserve Bank of India. Also in 1954 government of India has introduced new currency of Rs 1000, 500, and 10000. In 1978 when there was Morarji Desai government demonetization took place. On November, 8, 2016 Prime Minister Sh. Narender Modi did a surprise announcement that the existing currency of Rs. 500 and Rs. 1000 will cease to be legal tender. This step is taken out for the fraud black money and to end corruption.

In November 2016 government of India declared for the demonetization of all 500 and 2000 banknotes of Mahatma Gandhi series. They not also issued 500 and 2000 notes.

The main objective of demonetization was to put a restriction on black money running as shadow economy because of its sudden announcement and poor planning it results into various pretests riots arid strikes. Although it’s one of objective is to stop terrorism and illegal activity which are funded by fraud money.

The announcement of demonetization was unexpected and unscheduled. Because of this country face a lot of cash shortage and people who are trying to exchange their money had to stand in long queues for hours. Due to this rashly action several deaths also take place. This was highly criticized by several economist and world media.

Its aim is also to reduce the interest rates and to create the less cash economy by reducing the extent of cash transaction.

ISSN: 0976-5425
Vol-5-Issue-5-September-October-2019

According to a report from Reserve Bank of India in 2018 almost 15.30 lakh crore of bank notes were demonetized and only 10720 crore were not deposited and this lead to an analysis that this action had been failed to remove black money. Several debates also took place in parliament.

Some positive effect of Demonetization:

Some positive effects listed below:

Growth of GDP:

By demonetization we can increase GDP or gross domestic product level. We can of for the house loans at low rate of interest that will increase the disposable income of economy. We will also see the improvement in purchasing power among customers that will reflect a positive impact on the consumption demand.

Cease of malpractices:

The main advantage that government will cease all the malpractices occurring in the black money market. When the old notes ceased than the black money cash will not be exchanged with banks.

Decreased accountability for the government:

It can be seen that superstation of soft money is easier than hard money. We know that every rule in accountability for the government so we know that every note is accountability for the government. So this accountability can be reduced conscionably. The existing currency is become insignificant for people who not to reveal their income and if we see the current demonetization move. We concluded that more than 5 lac crore may came to government in the form of notes takes and penalties.

Refined banking system:

With the current demonetization banking system will improve in appreciable manner. The economy will starts moving toward a fully cashless direction. Now people will be using online portal for purchase by demonetization in India. White money will go on to the government and the new approved or legalized money utilized by bank for loan and can generate interest from the same.

Increased saving:

Due to demonetization people likely to deposit their money with a bank and store less physical currency at home.

Some negative effect of demonetization:

Every person either he is a farmer or a businessmen had been effected. Employers cannot get their salaries even the hospital refuse to provide treatment to the patients who are giving them old banknotes. Weddings throughout the country were also canceled. Some negative effect listed below:

Temporary financial loss:

ISSN: 0976-5425
Vol-5-Issue-5-September-October-2019

Mostly confusion created between common people. everyone hastening to get rid of demonetization notes because of insufficiency supply of new notes and by this way today budget get affected. The situation was very worse in rural India due to lack of enough not of bank and ATMs in their territory.

Transportation:

Even the transportation system also affected. There were the long queues on the major highway, toll plazas become they were refusing the old bank notes after that a suspension on toll collection was announced.

Stock market:

It has marginal impact on stock market. A report has show that 54 companies under NSE across 13 sectors in which companies of cement/cotton and rubber had showed the increase in trades while companies in automobile, clothing, food, paper retail, steel had showed decrease in trade.

Industrial output:

The industrial production also suffered a big loss due to cash shortage. The PMI index of industrial fell from 54.5 in October to 46.7 in November 2016. The government of industrial showed the sudden reduction because of demonetization.

Agriculture:

There are adverse effect on agriculture because it heaving depend on cash transaction because of dearth of new bank notes the farmers were unable to purchase seeds, fertilizer, pesticides for new crops while the rates of old crops had also been fallen down.

Informal sector:

Demonetization has adverse effect on the casual laborers. Employees who do not have jobs at fixed places had to suffer a lot. Because of shortage of money they were getting no jobs.

Cash shortage:

Because of cash shortage in banks people had to face the difficulties in exchanging of or depositing the demonetization bank notes.

Cost of printing of new currency:

Main disadvantage is that eradication of old currency and printing of new currency unit involve cost. If this cost is higher than benefits those there is acrimony of demonetization.

Move black money to other assets:

This step targeted to the black money. It is not computing that people kept their cash as their black money. They can use this black money in other assets like real estate, gold and so on. So that will not affected by demonetization.

Affected poor people life:

ISSN: 0976-5425
Vol-5-Issue-5-September-October-2019

We know in India poor people do work in daily basis for fulfill their need they want money every single day basis. But due to demonetization their daily income stopped because contractor is unable to pay their daily wage.

Conclusion:

So in this way we can conclude that demonetization has merits and demerits both. So only demonetization cannot fight with parallel economy their should be other steps are essential by the government to change by economy for good.

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