

# A Study on Impact of Demonetization on Rural People in Shamli District

## Abstract

Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is change of national currency. The current form of money is pulled from circulation and retired, or to be replaced with New Notes or coins. The opposite of demonetization is remonetization, in which a form of payment is restored as legal tender.

The paper on demonetization effort is to stop the counterfeiting of the current currency notes allegedly used for funding terrorism across the border by the neighboring countries, and as an attack on the black money in the country. This paper on demonetization programme would have been evaluated in the context of its short-term costs and long term gains. Demonetization is the process where government declares the currently running currency notes illegal to be tender after the declaration is made. There are both pros and cons of demonetization in the Indian economy. The reasons for demonetization are to control counterfeit notes that could be contributing to terrorism, corruption, theft and to undermine or eliminate the "black economy". The demonetization has a great significant and immediate impact on the state of the Indian economy and common man as well. A decision like this can result in the sweeping up of a system for which many trust that it could not be done, as earlier attempts did not have rich impact. There are multiple reasons why nations demonetized their local units of currency.

1. To combat inflation
2. To combat corruption and crime
3. To discourage a cash dependent economy
4. To facilitate trade

However, the decision by Prime Minister Mr. Narendra Modi is one of the most historical steps in India and this can help control inflation, recapitalize banks, minimize the interest rates and making the economy vibrant. This decision taken by government is for welfare of the nation, but so many questions come in mind that, would note ban decision actually eradicate the black money, if does then at what extent black money will come out. What should be the impact of this decision on Indian economy? Would demonetization be proved prosperous or poor for rural people of India. Keep in mind that the paper will study an impact of demonetization on rural people of Shamli district (UP)

**Keywords:** Demonetization, Populous, Terrorism, Recapitalize.

## Introduction

Money is the life blood of every economy. This is an engine of country's growth whether a developed or underdeveloped economy. The invention of money became a strong pillar to build a strong economy. Money exchange appears to be more convenient than barter, Money exchange facilitates ease of doing business, facilitates taxation and national integration. All activities such as production, exchange, distribution, services etc. form an economy and such a type of economy called formal economy. But after touching a point of development, another economy which is called parallel economy or informal economy start works in which people try to do illegal activities to hide their white money. Such an economy has neither economic activity/activities nor taxed and monitored by Government, contrasted with a formal economy. As a result, presence of corruption, black money, counterfeit currency, poor governance etc. promotes and establishes parallel economy. To confront the problem of black money, Demonetization is the most important and necessary measures when there is a change of national currency. The old unit of currency replaced with new currency. Demonetization is the process where government declares the currently running currency notes illegal to be tender after the declaration is made. The reasons for demonetization



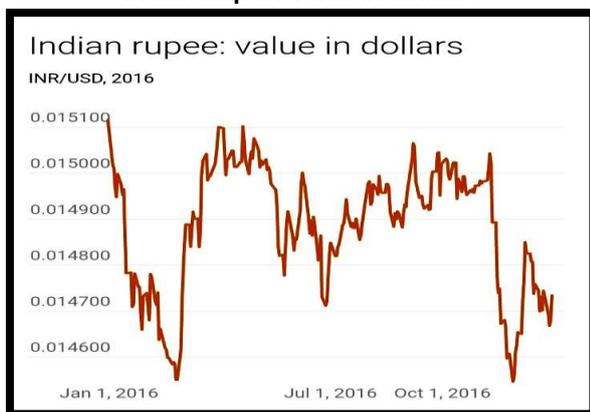
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are to control counterfeit notes that could be contributing to terrorism, corruption, theft and to undermine or eliminate the "black economy". The demonetization has a great significant and immediate impact on the state of the Indian economy and common man as well. On November 8, 2016 Indian Prime Minister Mr. Naranar Modi announced in a broadcast to the nation that Rs. 500 and Rs. 1000 currency notes would no longer be recognized legally as currency. The total currency in circulation in India was Rs. 16.42 lac crore (US\$240 billion) of Rs. 1000 and Rs. 500 notes. The government believe that this demonetization is required for the four main reasons first reason is for stopping the funding of terrorism, second reason for facing the problem of fake Currency, Third reason for making the black money worthless and fourth reason for reducing the corruption and lastly, to make economy cashless.

In 2016, The Indian Government decided to demonetize the 500 and 1000 Rupee notes, the two biggest denominations in to 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 these notes were worthless, effective immediately and they had until the end of year to deposit or exchange them newly introduced 200 Rs. and 500 Rs. Chaos ensued in the cash dependent economy (80% of transactions are in cash). The new Rupee Notes have different specifications, including size and thickness 200,000 ATMS were operational. Even those dispensing bills of lower denominations faced shortages.

**Indian Rupee: Value in dollars**



**Source: Factset**

India is the second most populous country in the world with nearly a one-fifth of the world's population. Out of the total 121.33 crore people of Indian population, 83.3 crore of population live in rural areas while 37.7 crore stay in urban areas, Census of India 2011. Most of the rural populations are engaged in agricultural activities and depends on agriculture. A primary sector like farming, forestry, logging and fishing accounted about 19% of the GDP contributes most to the overall economic development of India. This decision taken by government is for welfare of the nation, but so many questions comes in mind that, would note ban decision actually eradicate the black

money, if does then at what extent black money will come out. What should be the impact of this decision on Indian economy? Would demonetization be proved prosperous or poor for rural people of India. Keep in mind that the proposed paper is emphasized on the study of impact of demonetization on rural people of Shamli.

### Objectives of the Study

The aim of research is to study the effect of demonetization on rural masses and to promote a Cashless economy, eradicate counterfeit currency, Eliminate black money, to combat corruption and inflation.

1. To know the awareness among labour class about demonetization in rural area.
2. To what extent the effect of demonetization in rural areas.
3. Is it helpful to eradicate the corruption in Rural Area.
4. To analyze the demographic profile of the respondents in Shamli District.

### Methodology

The Proposed project is based on primary and secondary data. Graph and percentile method have been used to analyze the data. Primary data has been collected through well-structured questionnaire. Samples of 100 respondents from 4 villages of Shamli District (Garhi, Simbhalka, Bhora Kalan & Banti Khera) have been selected by using random sampling method. The collected information were reviewed and consolidated into a appropriate tabular form. Secondary data has been collected from internet, articles, magazines, journal, books, newspapers etc. For the purpose of analysis the data is further processed by using statistical tools. The statistical tools which are reviewed and consolidated on master table by using statistical techniques such as weighted percentage, chi-square test and ranking method. Measurement has been used on situation specific scenarios, expert's opinions, and use of other appropriate sources.

### Review of Literature

Literature review is done by reading books, journals, web-sites, newspapers, articles, theories Brain storming, discussion with mentor Actual field trip, and questionnaire method. Published papers are also discussed on the concept of demonetization. The paper is focused the steps taken by the government on the major demonetizes that took place in India and Impact of demonization in rural area.

Alvares, Clifford (2009) in their reports "The problem regarding fake currency in India." It is said that the country's battle against fake currency is not getting easier and many fakes go undetected. It is also stated that counterfeiters hitherto had restricted printing facilities which made it easier to discover fakes.

Jain, P.M in the article "E-payments and e-banking" opined that e- payments will be able to check black "An Analysis of Growth Pattern of Cashless Transaction System. Taking fullest advantage of technology, quick payments and remittances will ensure optimal use of available funds

for banks, financial institutions, business houses and common citizen of India. He also pointed out the need for e-payments and modes of epayments and communication networks

Sukanta Sarkar (2010) conducted a study on the parallel economy in India: Causes, impacts & government initiatives in which the researcher focused on the existence of causes and impacts of black money in India. According to the study, the main reason behind the generation of black money is the Indian Political System i.e. Indian govt. just focused on making committees rather than to implement it. The study concludes that laws should be implemented properly to control black money in our economy.

Tax Research Team (2016) in their working paper stated in favour of demonetization its main objective is to analyze the impact of demonetization on Indian economy. This paper shows the impact of such a move on the availability of credit, spending, level of activity and government finances.

Visual Gupta (2016) researcher analyzed the black money income. paper analyzed that black money is spread everywhere in India up to a large extent which continuously stashed towards abroad in a very large amount. The researcher also identified how black money had caused menaces in our economy and in what ways it is used.

Balachandar, (2016) briefs that 35 - 40% of the prices of SUV's and premium vehicles are paid through cash, black economy gets heavily invested SUV's and premium vehicles. Hence, these categories will also face the heat in the short-term.

Ray & Dewan (2016), Over the past 2 Months, commercial vehicle sales, especially heavy vehicles have been on a declining trend on account of waning replacement demand, weak industrial activity and uncertainty related to the impact of goods and services tax (GST) regime on vehicle prices. With the recent Demonitization move, the demand for commercial vehicles is expected to come under further pressure, which was otherwise expected to get a boost by the end of the fiscal term from pre buying following the implementation of BS-IV emission norms from April 2017 onwards. Mukherjee (2016); Demonetisation has badly hit the automobile sector, with demand in Gujarat, Punjab, The national capital

region and North east being worse than the rest of India. Further he reveals the significant drop in inquiry and bookings.

Singh (2016), The demonitization of rupees 500 and rupees 1000 notes was quite a surprise for the entire nation and the immediate ripple effect of this on the automotive industry was a DIP in the BSE auto index of 2.5 % On December 10, 2016. This is due to the fact that a number of potential buyers offer down payment in cash or sometimes, purchase a two wheeler with the complete cash payment.

Rahul Prakash Deodhar "*Black Money and Demonetisation*" The Government of India announced that the Rs 500 and Rs. 1000 denominated currency notes will cease to be legal tender. The move was targeted towards tackling black money, corruption and terrorism. After initial euphoria, questions began to emerge. What are the costs of this demonetization? Will it be effective if people can still create new black money thereafter? The author concluded that it is just one move of one piece in the chess board of black money. To check-mate the black money king, you have to win the board. There are various steps required as detailed above. Government can play all these moves and still fail if they play improperly. All we can say is that Government is playing well. But will it succeed? The efforts will bring massive amounts of cash into the banking system – a benefit in itself. Once the money is in the legitimate channels, it should be better utilized and revenue will be generated from its use. If that is success enough then yes.

## Analysis and Interpretation Demographic Profile of the People

Table no.1 describes the demographic profile of the respondents for the study. Out of 100 respondents who were taken for the study: it has been identified that most (60%) of the respondent are male, (55%) whose age group is under 26 to 50 years, most (30%) of the respondents are up to school Level, (56%) of the respondents are usually farmers, businessman and professional (with farming skills) belongs to joint family and the annual income of (32%) respondents is above Rs.2,30,000-2,50,000, (40%) of the rural respondents belong to nuclear family

**Table 1: Demographic Profile of the Respondents**

Factors	Number Of Respondents N=100	Percentage
<b>Gender</b>		
Male	60	60
Female	40	40
<b>Age (Years)</b>		
Up to 25	25	25
26 to 50	55	55
Above 50	30	30
<b>Educational Qualification</b>		
Up to School Level	30	30
Graduate	60	60
House wife	10	10
<b>Occupation</b>		

Business	56	56
Employee	24	24
Professionals	20	20
<b>Annual Income</b>		
Up to Rs.1,00,000	25	25
Rs.1,00,001 to Rs.2,50,000	43	43
Above Rs.2,30,000-2,50,000	32	32
<b>Type of Family</b>		
Nuclear Family	40	40
Joint Family	60	60

**Table 2: Relationship between the Demographic Profile of the respondents and Impact 11of Demonetization**

Variables	Level of Awareness			Total	$\chi^2$ Value	Table Value	Remarks
	Low	Moderate	High				
			<b>Gender</b>				
Male	12	21	40	60	6.0016	4.9748	S
Female	14	12	14	40			
<b>Age (Years)</b>							
Up to 25	7	15	3	25	21.2065	0.0288	S
26 to 50	17	22	16	55			
Above 50	22	5	3	30			
<b>Educational Qualification</b>							
Up to School Level	10	8	12	30	11.056	2.5941	S
Graduate	22	30	8	60			
House wife	4	2	4	10			
<b>Occupation</b>							
Business	12	28	16	56	9.829	4.3402	S
Employee	4	18	2	24			
Professional	7	6	7	20			
<b>Annual Income</b>							
Up to Rs.1,00,000	4	4	17	25	15.07	4.558	S
Rs.1,00,001 to Rs.2,50,000	13	17	13	43			
Above Rs.2,50,000	14	4	14	32			
<b>Type of Family</b>							
Nuclear Family	12	8	20	40	16.0317	0.033	S
Joint Family	30	22	8	60			

\*significant at 5% percent level

### Relationship between the Demographic Profile of the Respondents and Impact of Demonetization

Table no.2 depicts the relationship between selected demographic variables and Level of Impact of demonetization of the respondents. It is clear that the calculated Chi-square value is less than the table value at five percent level, there exists any significant association between educational qualification type of

family of the respondents and level of impact on demonetization. Thus the null hypothesis is accepted. It is also clear that, the calculated Chi-square value is less than the table value at five percent level, so there also exists a significant association between gender, age, annual income, occupation and level of impact on demonetization. Thus the null hypothesis is accepted.

**Table 3: Shows the Factors Impacting the People's on Demonetization**

Factors	5	4	3	2	1	Total	Mean Score	Rank
Demonetization helps to Destroy Black money in India	14	54	18	4	10	100	3.74	1
Demonetization helps to destroy corruption, illegal activities etc.,	42	26	14	4	14	100	3.68	2
Implementation of Electronic Payment	20	30	14	24	12	100	3.22	5
People are affected by demonetization	22	38	16	16	08	100	3.7	3
High impact on Real estate, gold rate, stock exchanges	28	38	8	8	18	100	3.5	4

## Factors Impacting the People's on Demonetization

The above table shows about the weighted average of each factor regarding the impact of demonetization. From the calculated weighted average demonetization destroy of black money is been the first by the respondents and it is followed by corruption, terrorism etc.

## Conclusions

Aswin Mannepalli in his Article "Is India's Demonetization a failure?" concluded demonetization a failure as far as short term data released by R.B.I. Nearly 99% of the scrapped Notes were deposited into the country's banks and have re-entered the country's monetary system.

According to P.Chidambaram, India's former Finance Minister "The main objective of forcing people with black money to suffer losses has failed miserably".

By Reducing money supply, demonetization has also acted as a temporary drag on the India's G.D.P., G.D.P. growth fell to 5.7% as estimated of 6.6 % in second quarter.

It does not mean that demonetization is purely failure. However medium term indicators are more positive. Removing notes from circulation motivated mobile money and other electronic financial transactions. According to R.B.I., The use of digital financial transactions has increased since demonetization. No doubt the upward trend is expected to increase. Need to translate English digital cash services into regional language particular for Indian Rural Economy. Experts believed slowdown would only be short lived once the system adjusted to the New Normal.

## Scope of the Study

This study will be helpful for the citizens of India, academicians, scholars, government officials, businessman, rural people and customers. Through this study it will be able to know about the future conditions of the economy. This study will help to the policy makers for making to the betterment of the economy. This will also be helpful for the rural Indian citizen because they would be able to know the present and future condition of the economy and they can take rational decision on their income and expenditure. Any businessman can also take the wise decision so that he will be able to generate more revenue and can maximize the profit in the actual market scenario. Finally, everyone would be able to understand the impact of demonetization on Indian economy as well as Indian markets.

## Limitation of the Study

1. The study is restricted to the selected sample of Shamli District and hence the result of the study cannot be generalized.
2. All the limitations of primary and secondary data are applicable to this study.
3. All the data are secondary available data in this article has consolidated and organized them in a factual method and order for a clear understanding and study and the availability of the raw data from the valid sources are also crucial in this study.

4. This study has the inherent limitations added to it by itself as it does not have adequate research being carried out on the phenomenon of demonetization. Hence there is no sufficient review of literature available for the inferences to be made through an exhaustive reference.
5. The statistical methods used to analyze the data have their own limitation.

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