

A STUDY ON IMPACT OF DEMONETIZATION ON GDP

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Abstract

Demonetization implies replacement of old currency units by the introduction of new currency units. It is a simple act of stripping national currency units of its status as legal tender. Hence, under this system, the old currency units lose its legal tender status and new notes come into circulation. It is to be noted that demonetization is one of the monetary measure taken by the government to clean the public life and to maintain a balance in the economy.

The purpose of the paper to study the effects of demonetization and its impact on the country's GDP. The paper also focuses on the positive and negative effects of demonetization on GDP.

Key words: legal tender, monetary measure, balances in the economy.

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. Demonetization for us means that Reserve Bank of India has withdrawn the old Rs 500 and Rs 1000 notes as an official mode of payment. On November 8, 2016 the Indian money Rs 500 and Rs 1000 note had been demonetized. The purpose behind government initiative is to tackle black money in the economy, to lower the cash circulation in the country and to eliminate fake currency and dodgy funds which have been used by terror groups to fund terrorism in India. As we realize because of demonetization, India faces such a significant number of issues like cash crunch, reduction in purchasing power which directly affects the GDP of the country. Paper focuses on impact of demonetization on Gross domestic product, in the sense it has influenced the development rate of economy

REVIEW OF LITERATURE

Prof. Babagouda. A. Patil (2019)

Pulling back units of cash from dissemination is demonetization; units of cash are denied the status of legitimate delicate. Demonetization is characterized as a procedure by which cash units won't stay lawful delicate. The money notes won't be taken as substantial cash. Demonetization is a step taken by the administration where money units are stopped of its status as legitimate delicate. Demonetization is an essential condition to change national money. As it were, demonetization can be said a difference in money where new units of cash supplant the old one. It might include the presentation of new notes or coins of a similar category or totally new division. The cash has been demonetized thrice in India. The principal demonetization

was in 1946, second in 1978 and the third was on 8th November 2016 (Tuesday).

Nair Sreeja Sivankutty (2017)

With a view to curb financing of terrorism and activities such as espionage, smuggling of arms, drugs and other contrabands to India and also for eliminating black money, it has been decided to cancel the legal tender character of high denomination bank notes of Rs.500 and Rs. 1000 denominations issued by RBI. At the beginning there was a negative impact on the various sectors of the economy which resulted in to lower growth. Reports from various sources across the country suggest that every sector and regions has adversely affected. Apart from all this reports later at the end of this financial year the country showed a growth of 7.1%. This paper elucidates the impact of such a move on the GDP and analysis of some data's in an analytical approach.

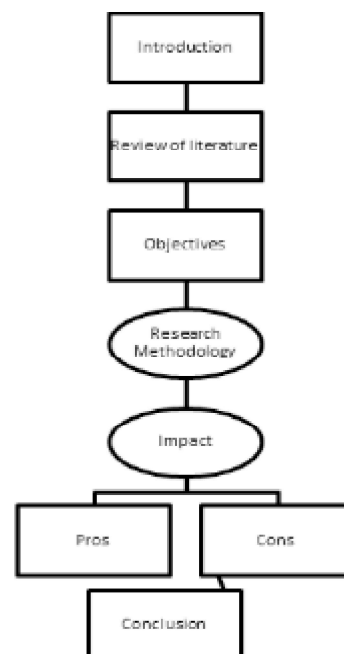
Research Gap

The above mentions literature reviews clearly state that the papers have considered advantages of demonetization and its implications. This paper is emphasized on the impact of demonetization on GDP on the economy of the country.

Objectives of the study

- To know the positive impact of demonetization on GDP.
- To know the negative impact of demonetization on GDP.

Structure of the paper



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Research Methodology

The study is purely based on secondary data; data is collected from various research articles, websites and other web sources.

Pros and cons of demonetization on GDP

Pros

- Demonetization has a long term impact on GDP through penalizing the non tax payers. It has also downsized the black money and reduced the cost of capital and has increased the flow towards financial sector which leads to the increase in the GDP of the country.
- Introduction of demonetization has reduced the inflation in the economy. It led to reduced prices of goods and also contributed in reducing the prices of goods and services. It has discouraged people to waste money on unnecessary things.
- A major advantage of demonetization is it has helped the government in tracking black money which was kept hidden by tax evaders and it also helped to trace huge amount of unaccounted cash.
- The reason behind demonetization was that major part of black money was being used for funding terrorist activity and also inflating the price of assets like real estate, gold and a like. Demonetization is acting as effective tool against such activities.
- Another benefit was that if people disclose their income by depositing money in their bank accounts, the government will get good amount of revenue in the form of tax which can be used to the betterment of the society by providing infrastructure, hospitals, educational institutions and other needy sectors of the society.
- Demonetization was to push Indian economy towards cashless economy. Slowly people are shifting from cash to cashless transactions.
- The number of tax payers has considerably increased. A large number of shell companies have been identified and closed.

Cons

With the above advantages, there are some critics against demonetization. Some drawbacks of demonetization are as follows.

- Demonetization directly affected the small industries and agriculture sector as most of them carried out cash transactions. No cash meant no business and also directly hampered employment.
- The biggest disadvantage of demonetization was, initially it created a chaos among common people. Everyone was rushing to get rid of demonetized notes. Due to inadequate

supply of new notes, it affected the day to day budgets of the people. Banks and ATMs witnessed long queues and small businesses suffered temporary financial crises. In rural areas the situation was worse. The people struggled to exchange and withdraw cash from banks and ATMs.

- Demonetization reduced cash flow among people. This temporarily disrupted their purchasing power and consumption.
- Small scale business people were unable to do any kind of transactions due to limits in cash withdrawal from banks and ATMs.
- Another disadvantage of demonetization is the destruction of old notes and printing of new notes which costs more to the government.
- It has affected the advertising and media industries also as the consumers are very choosy on what to spend and what not to spend.

CONCLUSION

In developing economy like India, it is very difficult to immediately accept cashless economy. Due to so many constraints like, though bank accounts have been opened in the form of Jan Dhan Yojana, most of the accounts are lying non operational. Cashless economy is possible only when people start operating bank accounts. India is dominated by small retailers and lack resources to invest in electronic payment modes. The perception of consumer is also a big barrier. It is universally believed that having cash in hand helps to negotiate better than cashless transaction. Banking sector in India is not completely computerized. Accessibility of internet facility is difficult in rural areas. There is also a threat of hacking. From the above study it is found that the decision of demonetization is to eradicate black money from the economy which reduces funding in terrorism and reduces the circulation of fake notes. It is found that even though there were inconveniences people accept the government decision. Most of the people stand by the government decision. Hence the paper is concluded that GDP of our country gradually improves due to demonetization.

REFERENCE

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