Impact of Demonetization on the Indian Economy and its people

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Abstract - *The impact of demonetization is very huge and significantly major in terms of Indian economy. We have tried in this paper to find what are the factors and impacts of demonetization on the Indian economy and its people. For collection and analysis purpose we have collected and compare about 150 samples of people .The people for research were randomly distributed from the Vellore district located in Tamil Nadu state of India. After conducting analysis we came to the analysis that employment was the only key factor that affected the economy and had a severe impact on demonetization and level of qualification was the only factor that have any relationship with the view of people about whether the demonetization was applied correctly or not. It was also found out that the main reason according to the people for conducting demonetization by government were the cause of removing black money after some other causes which were seem to be important were terrorism and the battle against corruption.*

Key Words: Demonetization, black money, corruption, correlation, Indian economy, impact on Indian economy

1)Introduction

During last November the Prime minister of our county Narendra Modi declared about the demonetization of the notes of Rs 500 and Rs 1000 which were currently being used the people.

He announced that these notes will not be valid from the midnight and no transactions made in these currency will be accepted anywhere in the country and these notes will be worthless piece of paper. This was done to take action against the increasing amount of corruption in India and to counter attack tax evasion also.
Demonetization is the most important step that was taken to counter tax evasion. It is the process under which the existing notes which are being used in the currency are being cancelled to be used further and instead new notes shall be used.

It is done because there are various people which are present in the country which are holding the cash with them to avoid tax payment .Thus to make sure cash is being circulated again in the market it is applied. For applying demonetization there can be a partial change in the currency for e.g. only R.s 500 notes can be banned and not the whole domination.

What Is Demonetization

Demonetization is the step of making a piece of currency to zero. In other words, making the value of currency to nil, resulting in it acting as a piece of paper with absolutely no worth.

Why demonetization occurred?

The reasoning given to us by government were :

1. To counter attack all black money in the economy.
2. To reduce the cash circulation in the country resulting in less corruption in our country
3. To destroy fake currency which have been used by people with wrong intentions like terrorist groups.

2)Literature review

According to researcher paper written by Arpit Guru and Shruti Kahanijow and the research work done . They have analyzed the black money income , they have researched about it and the need for amendment in DTAA & ITEA and they have came to a conclusion that the presence of black money in India is present over whole of the country in huge quantity and the majority of the black money possessed by the people is being present in the banks situated in other countries, they have also research the cause and impact of black money and how it has disturbed our economy and currency and how the people in our country uses black money in what forms and how they are able to get it circulate in the system.

In the research paper and work done by Sukanta Sarkar in the year of 2010 she had performed a study on the presence of a different economy in the country or the parallel economy in our country .In the research were she had analyzed what are the causes and what were the impacts of it. She had also focused on the work done by government and some of the imitative taken by the government in deciding the reason and effect of black money in India . The result she found out after the research work done by him is that the main factor which is the main source for the increasing black money in our country in none other than but our Indian political system .She came to the conclusion that the government only just focus on how can they form a different committee rather then how can they implement the existing and these new committee efficiently so that the law

and the fight against black money can actually be performed in a better way.

In 2016 there was a set up of team known as Tax research team which have conducted a research and in their research they have came to a conclusion that the demonetization was a a good cause ad they have supported the reason of performing it. The main aim of their paper was to find out what was the impact of demonetization on our country economy and the research work have shown and stated the impact of it on out economy and other factors like the presence and availability of credit with people their level of spending the money on the activities performed by them .

3) Proposal

To examine the characteristics of the demonetization on the Indian economy which will help us to understand whether applying demonetization has any impact on the Indian economy and moreover it will also tell us how well the concept of demonetization was applied and what effect it had on the people.

4) Objective

- To study the impact of demonetization on Indian economy.

- To analyze whether people faced any difficulties due to it.

- To find out effectiveness of demonetization.

5.1) Null hypothesis

There is no significant Impact of Demonetization on the Indian Economy and its people.

5.2) Alternate Hypothesis
There is significant Impact of Demonetization on the Indian Economy and its people.

6) Methodology

To find out about the effects of demonetization and its feasibility we would take a survey in which there would be approximately 150 people involved. For surveying we would ask the questions to the students , teachers , bank members ,service class people, businessman .The data collected was merged into a single data source and analysis was performed on it to find out about the relation of demonetization on Indian economy. The analysis was performed by using the SPSS tools and in which we have use the method of Correlation.

7) Analysis

After doing the analysis on factors like age, income ,level of qualification, educational level and employment level we came to the conclusion that only employment level was the significant factor that have a impact on the Indian economy .Other factor were found not significant enough to have an impact on demonetization .This was mainly due to less number of responses and a limited survey constrained to the VIT university.

We found that the employment was the factor that had a negative correlation with the black money and also have negative correlation with the mode of digital payment .

Correlations

			EMPLOYMENT	QUESTION 12	QUESTION 13	QUESTION 14	QUESTION 15	QUESTION 16
Spearman's rho	EMPLOYMENT	Correlation Coefficient	1.000	-.151	.046	-.157	.081	-.028
		Sig. (1-tailed)	.	.033	.288	.027	.161	.369
		N	150	150	150	150	150	150
	QUESTION 12	Correlation Coefficient	-.151	1.000	-.010	.062	.080	.121
		Sig. (1-tailed)	.033	.	.454	.225	.166	.070
		N	150	150	150	150	150	150
	QUESTION 13	Correlation Coefficient	.046	-.010	1.000	.037	-.022	-.001
		Sig. (1-tailed)	.288	.454	.	.327	.393	.496
		N	150	150	150	150	150	150
	QUESTION 14	Correlation Coefficient	-.157	.062	.037	1.000	-.009	.022
		Sig. (1-tailed)	.027	.225	.327	.	.459	.393
		N	150	150	150	150	150	150
	QUESTION 15	Correlation Coefficient	.081	.080	-.022	-.009	1.000	.066
		Sig. (1-tailed)	.161	.166	.393	.459	.	.210
		N	150	150	150	150	150	150
	QUESTION 16	Correlation Coefficient	-.028	.121	-.001	.022	.066	1.000
		Sig. (1-tailed)	.369	.070	.496	.393	.210	.
		N	150	150	150	150	150	150

*. Correlation is significant at the 0.05 level (1-tailed).

As you can see the employment has significant value in respect to black money which is that whether in India there is significant amount of black money and there is a negative correlation with it. Furthermore there is also a negative correlation with digital mode of payment which is whether government focusing on more digital mode has any significant effect on the people the value was found out to be equal to about -0.157. The other factor which are displayed below are not found significant enough due to less no of responses which means they do not have any correlation on black money , digital mode of payment and whether there were any impact on the people.The value of correlation of employment was found out to be -0.151 with respect to black money

Next we have also found out that whether there was any relation on how does the people think that the demonetization has been applied , we found out that out of all factors only level of qualification was the factor that have a significant impact on the relationship about what people think that whether the demonetization was applied in better manner or not other factors were found least significant. The level of qualification has a negative correlation of 0.136 with it.

Correlations

		QUESTION 12	QUESTION 13
QUESTION 12	Pearson Correlation	1	-.058
	Sig. (2-tailed)		.482
	N	150	150
QUESTION 13	Pearson Correlation	-.058	1
	Sig. (2-tailed)	.482	
	N	150	150

Correlations

		EMPLOYMENT	AGE	GENDER	QUALIFICATION	INCOME	QUESTION 9	QUESTION 18
Spearman's rho	EMPLOYMENT	Correlation Coefficient	1.000	.580	.079	.444	.200	-.093	-.053
		Sig. (1-tailed)	.	.000	.169	.000	.007	.129	.260
		N	150	150	150	150	150	150	150
	AGE	Correlation Coefficient	.580	1.000	.345	.117	.255	-.023	.026
		Sig. (1-tailed)	.000	.	.000	.077	.001	.392	.375
		N	150	150	150	150	150	150	150
	GENDER	Correlation Coefficient	.079	.345	1.000	.165	-.012	-.038	.113
		Sig. (1-tailed)	.169	.000	.	.022	.443	.324	.085
		N	150	150	150	150	150	150	150
	QUALIFICATION	Correlation Coefficient	.444	.117	.165	1.000	.344	-.136	.045
		Sig. (1-tailed)	.000	.077	.022	.	.000	.048	.291
		N	150	150	150	150	150	150	150
	INCOME	Correlation Coefficient	.200	.255	-.012	.344	1.000	-.006	.065
		Sig. (1-tailed)	.007	.001	.443	.000	.	.470	.215
		N	150	150	150	150	150	150	150
	QUESTION 9	Correlation Coefficient	-.093	-.023	-.038	-.136	-.006	1.000	-.104
		Sig. (1-tailed)	.129	.392	.324	.048	.470	.	.102
		N	150	150	150	150	150	150	150
	QUESTION 18	Correlation Coefficient	-.053	.026	.113	.045	.065	-.104	1.000
		Sig. (1-tailed)	.260	.375	.085	.291	.215	.102	.
		N	150	150	150	150	150	150	150

**. Correlation is significant at the 0.01 level (1-tailed).

*. Correlation is significant at the 0.05 level (1-tailed).

In the above table the result show that there is no correlation between the decrease in black money and the reduction of black money in our country. It show that the factors do not relate with each other as the significance value is greater that 0.05 , thus we have to reject it and conclude that there is no relation between black money and reduction of illegal activities after demonetization, the result may show no correlation due to less amount of surveying data as the data set was limited to 150 numbers.

Correlations

		QUESTION 17	QUESTION 18
QUESTION 17	Pearson Correlation	1	.055
	Sig. (2-tailed)		.503
	N	150	150
QUESTION 18	Pearson Correlation	.055	1
	Sig. (2-tailed)	.503	
	N	150	150

In the above table the correlation between the use of difficulty of new note of Rs. 2000 and the impact it had on people life was correlated .The test show that these two factors were not significant at all , and it did not have any significance on each other .The significance value was found to be greater than 0.05 , thus we can say that there was no impact on people life by the use of new currency of Rs 2000.

8)Conclusion

- Only employment have any significant relationship with the other factors which resulted in view of people about impact of demonetization , reduction of black money and whether the digital mode is good or not.

- Only level of qualification is having a relationship with the view of people about whether the demonetization was applied correctly or not.

- The other factors were found non-significant due to the reason that the no of responses were found less to show any relationship between the factors affecting demonetization.

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