

IMPACT OF DEMONETISATION ON THE PEOPLE'S UTILIZATION OF THEIR DISPOSABLE INCOME, METHOD OF TRANSACTION AND ON THEIR LIFESTYLE

Vidhya Kshirsagar, D.Y. Patil University School of Management
Ashwini Kadam, D.Y. Patil University School of Management

ABSTRACT

India is one of the fastest growing economy in the world, however it is facing myriad of issues, which are causing destabilization within the country. Corruption, black money, human trafficking, red tape and terrorism are some of the major issues that is faced by the country. However, the root cause of all these problems lies in it because of the parallel economy. The main emphasis will be given on the impact of demonetisation on the different factors. This study is descriptive in nature as this study uses quantitative data to make inferences and observations. In addition, the main topic of this study is to determine the relationship with dependent variable (demonetisation) and various independent variables (consumer behaviour, investment decision, corruption & red tape, financial health of SMEs and cashless mode of transactions). The findings of the study concludes that the demonetisation, though it caused inconvenience to the people and especially to the farmers and SME industries in short run. Overall most of the respondents felt that the demonetisation had positive influence on their lifestyle as well on investment decisions.

Keywords: Economy, Demonetisation, SMEs, Corruption & Red tape.

INTRODUCTION

Parallel economy in India has substantial amount of illicit money, which are used to fund these anti-social activities. So in order to create countermeasures to these problems, the government had introduced a radical move, which caught the entire nation by surprise – which was demonetisation. On November 8th 2016, Prime Minister Narendra Modi announced to the public that the old denominations of ₹500 and ₹1000 bills of Mahatma Gandhi Series will be ceased to be a legal tender in the country and instead those notes will be replaced by new notes of Mahatma Gandhi series bearing the denomination of ₹500 and ₹2000. In this study, the main emphasis will be given on the impact of demonetisation on the different factors. As the demonetisation had occurred in the year of 2016, by looking at the economic variables of the current year 2019, it will become easier to determine the long run consequences of the demonetization (Shashishar, 2018). In order to get a clear picture of the effect of the demonetisation on the lives of the citizens as well as the domestic businesses as a whole, many factors were taken into consideration, which might be highly influenced due to the demonetisation. This research will be analysed deeply and thoroughly, so that this study could identify the trends, which could show the long run health of the Indian economy. By verifying the previous reports and as well as carrying out fresh survey reports to determine whether the people were positively or adversely affected by the demonetisation. By carefully analysing the data yielded from the primary data, this study will determine whether demonetisation is a serious game

changing policy or if it is reckless political gimmick. Before demonetisation, tax collection was lowest at 10%. However, after the introduction of the demonetisation, the tax collection has visibly improved, since GDP remained stable despite of facing the shock of demonetisation. With the introduction of the GST, which streamlined and systemised the tax collection and with the scrapping of these notes of the two highest denominations of ₹500 and ₹ 1000, tax evaders are left with very little avenues to park their unaccounted money. In addition to that, the government had also introduced the penalty for the unaccounted, which is 200% of penalty of the unaccounted money, which is dealing a major blow to the tax evaders. In addition, in order to prevent tax evaders to convert their surplus money into investment commodities like gold, the government had made it mandatory to furnish the PAN card while buying gold and jewellerys. Although the government only managed to scrap out ₹107.2 billion black money out of economy, which was radically different from the government estimate of ₹ 3 lakh crore, because of the stringent checking, around ₹2.89 lakh crore, are under the radar of the Income Tax department (Babar, 2017).

REVIEW OF LITERATURE

In the article titled “*Demonetisation: A Step towards the Digitalization of the Customers*”, (Singh & Aditi, 2017) analysed the impact of demonetization on the demand of goods and services. Based on their research, due to the demonetization, the supply of money went down, as the denomination of ₹1000 and ₹500 were junked out from the economy. The author analysed how the sudden withdrawal of the cash from the economy affected the different sectors of the country, which ultimately affected the prices of the goods and services.

In the article titled “*Consumption demand hit severely by demonetisation*”, Centre for monitoring Indian Economy Private Limited, authored by Vyas (2019) this article mainly focus on the effects of the demonetisation on PFCE. According to the author, more than 48% of the labour-force lost their income demonetisation, and out of that 48% labour force, most of them either are daily-wage labourers, small time vendors & traders as well as self-employed people. These class of people were the ones, which were adversely affected by the demonetisation.

In the article titled “*Mutual Funds are a clean winner after demonetisation*”, by Roy (2017), the author had explained the importance of the demonetisation for the growth of the mutual fund market. Due to the demonetisations, investments in the mutual fund markets grew by 196% to ₹2.37 lakh crores in the one-year period since the introduction of the demonetisation. According to the author, the reason why the mutual fund markets gained such popularity after demonetisation is due to various reasons.

In the article titled, “*Demonetisation: Indian SMEs suffered a blow, still struggling to find footing*”, written by (Borgohain, 2017) the author writes that the demonetisation had dealt a fatal blow to most of the MSMEs. In this article, the author explored that how the demonetisation had wreaked havoc at the small-scale industries who were not prepared for the note ban. The author also states that instead of hurting the parallel economy or the black economy, most of the MSME’s were the ones suffered because of the demonetisation, even though they do not engage in the black money transactions.

In the article titled, “*Demonetisation and the fight against the black money*” (Live Mint, 8th November 2017), the author, Deodhar (2017) had talked about the positive impact of the demonetisation on the black money and corruption.

RESEARCH OBJECTIVES

1. To study the impact of demonetisation on the people's buying behaviour.
2. To study the impact of demonetization on the investment decision taken by the people.
3. To study the impact of demonetisation on the small and medium scale businesses.
4. To study the effect of demonetisation on the corruption and red-tape faced by the people.
5. To study the impact of demonetisation on the usage of the plastic money and other cashless modes of transactions.

METHODOLOGY

This study is descriptive in nature as this study uses quantitative data to make inferences and observations. In addition, the main topic of this study is to determine the relationship with dependent variable (demonetisation) and various independent variables (consumer behaviour, investment decision, corruption & red tape, financial health of SMEs and cashless mode of transactions). Quantitative survey was conducted to collect primary data. In view of the objective of the study, it was considered necessary to undertake a survey of small and medium manufacturing sector units from major parts of Navi Mumbai. The information has been collected from the respondents by using questionnaire. The research was designed in such a way that, the results would be reflected purely on a quantitative basis rather than give political tinge to it. As demonetisation is considered a very controversial topic, there might be cases where the secondary data will be heavily biased. In order to counter that, the research design takes in the positive aspect as well as the negative aspect of the demonetisation and in the end; the plus points will be weighed against the negative points in order to determine the clear outcome of the effect of the demonetisation. In addition, as the demonetisation had occurred in the year of 2016, by looking at the economic variables of the current year 2019, it will become easier to determine the long run consequences of the demonetization (Al-Mohammad et al., 2022).

Sampling Design

1. Type of Universe: The Universe of sample is small and medium manufacturing sector units in Navi Mumbai region.
2. Sample size: The sample size is 60; from that 30 small and 30 medium manufacturing sector units in the area of Navi Mumbai region.
3. Sampling type: Random sample technique is used in this research.

The following table gives an overview of the sampling carried out for this research study (Table 1).

Sample Size	60 respondents
Area where samples were collected	Mumbai and Navi- Mumbai
Targeted Demographics	Any Indian citizens who are 18+ years
Sampling Method	Simple random sample as well as stratified sampling in some questions

The minimum sample responses kept were 50, in order to increase the precision of the data. Also age restrictions is imposed while taking sampling, because the adults are more likely to remember the events surrounding the demonetisation as they are directly exposed to it.

DATA ANALYSIS & INTERPRETATION

Data collected through questionnaire and it was analysed with the help of pie chart and bar chart.

After the Announcement of the Demonetization on November 8th 2016, Did you Face the Problem of Cash Shortage?

Based on the survey, around 53% of the people had faced the problem of liquidity crunch due to demonetisation whereas 37% of the respondents did not face the problem of the liquidity crunch due to demonetisation and the remaining 10% of the respondents had relied on debit card and credit card to finance their needs due to demonetisation. Majority of the people had faced a lot of inconvenience due to the ban of notes.

After the Announcement of the Demonetization, Did You Decrease the Purchase of the Following (Table 2).

Table 2 DEMONETIZATION				
Particulars	Yes	No	Spending remained same	Actually spent more than before
Vegetables, Grains & Pulses	11	30	17	2
Electronics or durables	22	18	18	2
Clothing (Basic)	16	22	17	5
Clothing (Branded)	19	23	16	2
Medicines	5	35	18	2
FMCG Products	12	28	19	1
Gold & Jewellery	23	16	18	3
LPG or Fuel	13	26	17	4
Travelling expenses	19	25	15	1
Leisure & Entertainment	23	19	16	2

The participants are asked to choose the following response:

1. Yes-which means significant decrease in the consumption.
2. No – which means negligible decrease in the consumption.
3. Remained the same- Which means the consumption remained constant.
4. Actually spent more-, which means the consumption, had increased significantly

After the Announcement of The Demonetization, Did You Stop Spending Money on Any Unnecessary Purchases During that Time Period?

Based on the analysis, around 53% of the respondents had stopped their impulse purchasing after demonetisation. This may explain why many of the FMCG companies, retail outlets and consumer staple companies witnessed declined in sales as they mostly employ the strategy of selling goods based on the consumer's impulse. 26% of the respondents are not sure whether they

had engaged in impulse buying while 21% of the respondents had not decreased their impulse purchases, which might be due to the reason that they might be relatively well off during the period of demonetisation (Thomson et al., 2022).

Now, In the Year Of 2019 (Three Years After Demonetization), Did Your Spending Expenditure Recovered to The Normal Levels?

Based on pie chart, 55% of the respondents had said that their expenditure level had went back to the pre-demonetisation levels which shows that they had significantly recovered from the liquidity crunch due to the demonetisation. 32% of the respondents had actually said that their spending levels had improved much better than their pre-demonetisation levels suggesting that the demonetisation may have a hand in improving people's standard of living. Only 13% of the respondents said that their current expenditure levels are worse than their expenditure level during the pre-demonetisation levels (Milanovic, 2022).

After Demonetization, Did You Encounter Any Shopkeepers or Businesses which Accepts Debit Card or Paytm? Do You Feel that the Number of The Shopkeepers Accepting The Cashless Transaction have Increased?

77% of the respondents had witnessed the increase in the usage of the debit cards at POS or Paytm by the shopkeepers after the demonetisation. 17% of the respondents did not feel much difference regarding seeing shopkeepers using such facilities. The remaining 7% of the respondents did not witness any increase in the number of the shopkeepers using such facilities.

What Kind of Businesses or Establishments Have You Seen Accepting Paytm or Debit Cards?

Based on the results displayed by the graph, the respondents were allowed to choose multiple options to select what kind of establishments were allowing their customers to use the digital mode of transaction. Most of the respondents had agreed that small to medium sized grocery stores allowed digital mode of transaction (with the highest score of 39 out of 40). Although they might not accept debit cards, the usage of mobile wallets are usually employed either by grocery stores or any other stalls. Many consumers also agreed that most of the small retail stores or electronic stores accept digital transaction although unlike grocery stores they usually accept debit cards (with the score of 32 & 33 out of 40 respectively). Finally only the minority of the respondents had witnessed stall owners accepting the digital mode of transaction, although the number of respondents reporting this is not small by any means (score of 17 out of 40). After demonetisation, it became a relatively common sight to see food or vegetable vendors accepting Paytm transfer for the purchases (Bhakta, 2018).

After the Announcement of The Demonetization, Did Your Investment Habits Changed?

The opinion of the people regarding the change in the investment habits is widely divided. 40% of the respondents said that the demonetisation had not affected their investment habits, whereas the 35% of the respondents had agreed that their investment habits had altered greatly due to the demonetisation. The remaining 25% of the respondents are not sure whether their investment habits had altered due to demonetisation. This might be due to the fact that they are not that much of an active investors and they might not had invested enough which will warrant their attention.

In What Services/Financial Products Do You Invest Or Save?

Based on respondents' responses, vast majority of the people invest in savings or fixed deposits (with the score of 24 out of 25). This is not surprising, considering the fact that much of the Indians are usually risk averse in nature. However, Equity and Mutual Funds investment are the next most preferred avenues to invest (with the score of 19 out of 25). Before demonetisation, equity and especially the mutual funds were not that popular choices, as Indians were considered to have low tolerance of risk. However after demonetisation, mutual funds and equity gained enormous popularity mainly due to high returns and due to its relative liquidity, which made the preferable avenues for investment. After equity & mutual funds, Gold is considered to be a good investment by the people (with the score of 14 out of 25). Least preferred investment instruments are considered to be PPFs, which relatively yield low investments with the score of (10 out of 25). Finally, the minority of respondents do not invest at all.

Do You Think That the Demonetization Had Made Investment Lot Difficult?

42% of the people are neutral regarding the issue whether the demonetisation had made investment more difficult or not. 20% of the respondents agree that the demonetisation is bad for investment while another 20% of the respondents disagree that the demonetisation is bad for the business. After that 13% of the respondents strongly agree that demonetisation is doing more harm than good to the investment whereas 7% are strongly disagrees that the demonetisation were harmful towards the investment (Fisher et al., 2022).

Do You Think That the Demonetization Had Benefited Stock or Mutual Fund Markets?

Around 45% of the respondents are neutral regarding the impact of demonetisation on the rise of equity and mutual funds. As most of the Indians traditionally invest in savings account, FD, PPFs or gold, many of them are not aware about the equity and the mutual fund markets. 35% of the respondents are agreeing to the fact that demonetisation had benefitted stock market and mutual market which is actually true. The remaining 20% of the respondents feel that the demonetisation had not benefitted stock markets or the mutual fund markets (Ludwig & Yakovenko, 2022).

Do You Think The Number of Customers or Clients Decreased During the Period of The Demonetization?

Based on the respondent's response, around 51% of the respondents disagreed that the demonetisation were adversely affecting the businesses. In contrast, around 48% of the respondents agreed that the demonetisation were hurting the businesses as the number of clients were dropping down due to the cash crunch.

Are Small and Medium Scale Businesses Making Losses Due to Demonetization?

Based on the survey results, 27% of the respondents strongly agreed that the demonetisation was hurting SMEs and also 33% of the respondents also agrees on this matter. 23% of the respondents are neutral as they were neither agreeing nor disagreeing whether the demonetisation was hitting the SMEs or not. 10% of the respondents are disagreeing that the demonetisation is hurting the SMEs. The remainder 7% of the respondents is strongly disagreeing as they feel that the

impact of demonetisation is negligible on the SMEs.

Do you think that the Demonetization Had Reduced the Incidents of The Bribery or the Corruption?

43% of the respondents feel that the corruption or the incident of the bribery had not reduced post demonetisation. 33% of the people were conflicted as they could neither agree nor disagree whether the demonetisation had curbed the level of corruption or not. Only 23% of the respondents believe that the demonetisation had curbed corruption. This can be a worrying trend considering the fact one of the main purposes of the demonetisation was to eliminate corruption.

After Demonetization, on What Basis Do You Encounter Corruption In the Government Offices or Other Institutions?

48% of the respondents believe that the demonetisation was effective to some extent as the number of corruption incidents they faced had reduced. Around 22% of the respondents agreed that the number of the corruption incidents that they faced had decreased radically. The remaining 30% of the respondents feels that the demonetisation move is ineffective as they were still witnessing the problems posed by the corruption (PTI, 2017).

Before Demonetization Did, You Have Credit/Debit Cards

Before demonetisation, vast majority of the respondents, which constitutes 70% of the sample size, had debit cards before demonetisation. 30% of the respondents meanwhile did not have access to the debit card before the demonetisation. However out of 30% of the non-debit card holders, around 53% of the respondents applied for the debit cards after the demonetisation. This can be seen as a significant trend considering the fact that most of the non-debit card holders are usually apprehensive to own debit card due to periodic cost as well as the security reasons.

Before Demonetization Did You Have Paytm or Any Other Similar Digital Wallets?

Before demonetisation, only 45% of the respondents did not have mobile wallets while the remaining 55% of the respondents had access to the mobile wallet. This is because mobile wallets were usually considered as a novelty rather than being means for transaction. However, after demonetisation, out of the 45% respondents who did not use mobile wallet transaction system, 47% of the respondents had applied for mobile wallet transactions. This clearly shows that the demonetisation can be considered as a relative success, as it is encouraging people to engage in digital economy (Shah et al., 2022).

How Frequently You Use Debit Card/Paytm For Shopping?

40% of the respondents are using cashless mode of transaction on a commonly basis. Following up, 27% is using cashless mode of transactions on everyday basis, which is actually good sign considering that the demonetisation is achieving one of its intended goals. Around 22% of the respondents are using the digital transactions on rarely basis while the rest of the 12% of the respondents are using cashless mode in transactions on an uncommonly based frequency. But overall this graph shows that most of the respondents are making digital transactions as a part and parcel of their lives (Ehigiamusoe & Dogan, 2022).

Overall Do You Feel That Demonetization Is Good For the Country?

35% of the respondents agree with the fact that the demonetisation is beneficial for the country whereas 12% of the respondents strongly disagrees that the demonetisation is not good for the country followed by the remainder of the 7% of the sample respondents just disagreeing with effectiveness of the demonetization (Kapoor, 2018).

Demonetisation based on the answers given by the respondents so far shows that people are generally have a positive perception towards the demonetisation and that they are confident enough to believe in the long term benefits that the demonetisation will bring towards the economy.

FINDINGS OF THE STUDY

Based on the results carried out in the survey, the consumption demand of the necessities like food, clothing, fuel, medicines and transportation had remained the same. Except for the price of the food, which was low due to the food disinflation, the main reason why the people had not reduced their consumption of these goods is because the government had permitted the use of old notes to buy these goods. The demand for durables, FMCG products, luxury goods, entertainment and leisure went down. However these were short term effect as 86.7% of the respondents either went back to their old consumption levels or their real income were actually much than during their pre-demonetisation levels.

Another interesting aspect, which were noted in the study, was the success of spreading digital transaction to the masses. Before the demonetisation, 70% of the respondents had plastic money whereas the rest of the 30% of the sample size did not had any debit cards. However after demonetisation, nearly 45% of the people applied for the plastic money. Similar trend can be witnessed in the usage of the mobile wallets as well, where 45% of the respondents did not have mobile wallets before the demonetisation, nearly 46.7% of the respondents applied for mobile wallets post demonetisation. In addition, when digital transactions were considered as mainstream before demonetisation, but after demonetisation 66.7% of the people are using cashless transactions on a very frequent basis.

Some of the negative aspects of the demonetisation are its damage caused to SMEs as well as it being not that effective against corruption. Around 51.2% of the respondents said that, the SMEs had lost its clients because of the demonetisation. In case of corruption, around 43.3% of the people disagreed that the demonetisation were effective against corruption whereas the 23% of the respondents did not feel any change in the matter. Overall, around 65% of the respondents agreed that the demonetisation is beneficial for the country in long run, which goes to show that they are optimistic about its impact on the Indian Economy.

RECOMMENDATIONS

1. The government should had bought all the stock of the agricultural products from the farmers at a fixed price and should have deposited the money in their Jan Dhan accounts so that they could have enough money to sustain their livelihood and to sow the next batch of crops.
2. The government should also have taken the SME's into their consideration while rolling out the note ban, as they comprise of 45% of the national output.
3. The government should also had upgraded their ATM kiosks, as a substantial number of Kiosks were unable to dispense new notes. As more than half of the ATM kiosks were not equipped to dispense new notes, people used to form a long queue for many days as the kiosks used to be empty very quickly because of high demand for new notes.

CONCLUSION

As India is considered to be cash based economy, when the government had banned two of its highest denominations notes, which constituted 86% of the transactions in the economy, most of the people as well as businesses were initially unprepared, as they did not expected that the government would take such bold step. In order to determine the nature of impact of demonetisation on the lives of the Indian citizens in general, this study was focusing on five major parameters. These parameters are consumer's buying behaviour, their investment choices, the status of SMEs which are mostly reliant on cash for its functioning, the incidents of the corruption & red tape faced by the people and finally to determine whether the people had really embraced the digital economy.

Based on the results of this research by using primary and the secondary data, we were able to capture the impact of demonetisation on the different spectrums of the people's lives. In the consumer's buying behaviour, we found out that except for the consumption of the necessity goods, most of the other segment of the goods had witnessed a decline. However, the reduction in the demand component had actually recovered to the pre-demonetisation levels, which is backed by the primary data. The investment habits of the Indians also changed because of demonetisation. Due to the impact of the demonetisation, most of the Indians are investing in Equities and Mutual Funds which resulted in massive capital injection into the economy. SMEs on the other hand suffered massive damage because of the demonetisation, which led to massive, shut downs as well as massive unemployment in informal sector. Demonetisation had achieved one of its intended goal which is to curb parallel economy as the government were able to confiscate illicit assets and recovered significant amount of black money in the form of taxes. Finally after demonetisation, many people are switching to the digital mode of transactions and they are slowly the plastic money as well as the mobile wallets are becoming an indispensable part in people's lives.

Based on the above results, demonetisation had created positive impact on its people and economy. Also majority of the respondents had expressed optimism in the success of the demonetisation and as of 2019 and currently India had recovered its position as the fastest growing economy which reaffirms the importance of the demonetisation.

LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

1. This study had encountered was that the majority number of the respondents belong to one age group (18-25 years), which would likely give skewed results.
2. Samples collected were based on only two locations Mumbai and Navi-Mumbai. For a Pan Indian policy like demonetisation, data from these two cities won't necessarily give an accurate representation of the entire population.

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