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Impact of Demonetization on Retail Sector across Tricity: A Game Changer

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ABSTRACT

On November 8th 2016, India's Prime Minister, Mr. Narendra Modi, announced a radical course of action, 'Demonetization'! This recent game changer was planned in secret by a small group led by the Prime Minister himself, which overtook the splurge of black money with a huge wave of transformation leading towards the unexpected. Many sectors of the economy were immensely affected by this revolutionary move. According to Forbes magazine, 'Trade across all facets of the economy was disrupted, and cash-centric sectors like retail were highly under impact'. This paper attempts to study the effect of demonetization on the retail sector by using an empirical approach. The survey of 280 retailers was conducted across Tricity (Mohali, Chandigarh & Panchkula), to identify the factors impacting the responses of retailers and to understand its overall impact with reference to demographic variables. One of the distinguished factors that emerged from the survey highlighted that most of the problems faced by retailers were associated with the usage of ₹2000 notes and the outlook towards demonetization was significantly shifted from curbing of black money to creation of a cashless economy!

Keywords: Demonetization, Black money, Cashless economy, Demographic variables.

1. INTRODUCTION AND BACKGROUND

Demonetization is a process of terminating a currency unit of its status as legal tender. It could be a method of terminating a currency unit of its standing as medium of exchange. It is basically an act when previous units of a currency get retired and replaced with new currency units. There are varied reasons that why nations demonetize their previous units of currency. Some reasons include reducing the level of black money in the economy, to combat inflation, to combat corruption, to create cashless economy. The process of demonetization involves either introducing new notes or coins of the same currency or completely replacing the old currency with new currency.

India's currency underwent demonetization 3 times. First time demonetization occurred in January 1946, well before independence and ₹1,000, ₹5,000 and ₹10,000 notes were taken out of circulation. ₹10,000 notes were the largest currency denomination ever printed by Reserve Bank of India in 1938. All three notes were again reintroduced in 1954. In the early 1970's, the Wanchoo Committee, direct tax inquiry committee, suggested demonetization to pull out the spread of black money. On 16 January 1978, demonetization occurred and ₹1000, ₹5000 and ₹10,000 notes were considered illegal for the second time (Times of India, 2016). The main purpose of demonetization was to contain the volume of bank notes in circulation. Third time demonetization occurred on 8th November 2016, when Government of India announced demonetization of ₹500 and ₹1000 bank notes by terminating these notes from the status of legal tender.

The latest action of the government has been commented upon differently by different media and public personalities. It is hence pertinent to conduct an in depth quantitative study to ascertain the real impact of this decision on the retailers in Tricity. This will also explore overall impact of demonetization assessing significant impact of demographic variables.

2. LITERATURE REVIEW

The Demonetization process has been studied and commented upon differently by different authors. Rajakumar and Shetty (2016) compared the current trend of demonetization with that in 1978. The authors analyzed that in 2012-13, high denomination notes grew at 12.3%, which was 0.9 times of the GDP growth rate. By 2015-16, high denomination notes grew at 16.5%, surpassing the GDP growth rate of 8.7%, that was, 1.9 times higher. They also concluded that earlier demonetization did not have any major impact on the life of the public as the present one.

In another related study, Dasgupta (2016) used theoretical tools to analyse the implications of demonetization exercise. The author used "Goods and Market equilibrium" to discuss the impact of demonetization on non monetary variables. Further he applied "IS – LM Equilibrium" to discuss the interactions between the monetary and non monetary variables for the closed economy, moving on to "Open market considerations" followed by "Impact on prices and inflation". It was found that the government's effort to create a cashless economy at short notice will not be an easy task as the Indian society will take a long time to adjust to cashless transactions. Further, Singh (2016) in his article 'Making a Mammoth Tragedy' stated that demonetization decision will cause great injury to the honest Indians who earn wages in cash. He said that it is the fundamental duty of the government to protect the rights and livelihood of its citizens but this decision is a misrepresentation of this fundamental duty. Further he said that this decision will have a hazardous macro impact. He strongly believes that this decision will have a ripple effect on job creation and GDP growth.

In another research conducted by Vivian and Edwin (2009) to assess the experiences of Ghanaian consumers after the re-denomination of Ghana's currency in July 2007, they interviewed twenty grown up Ghanaian consumers from the Accra-Tema Metropolitan place in Ghana. The results indicated blended responses. Few respondents discovered the new currency greater portable than its predecessor; whilst other respondents located that the new currency delivered approximately a diffusion of frustrations that Ghanaians had to deal with everyday.

In a similar study, Kaur (2016) examined the impacts of demonetization in India. Her study was based on secondary data taken from various published sources. It was concluded that demonetization had mixed impact on various sectors of the economy, consumer durables and real estate on the negative front and positive tax compliance. Deodhar (2016) also analysed the effect of demonetization on GDP and inflation. It was found that GDP continued to grow but at declining rate and inflation remained unchanged for a short period of time. Sinha (2016) analysed the aftermath of demonetization on rural population. It was found that due to lack of adequate and proper planning, the demonetization-driven cash crunch left in Indian economy especially in rural areas.

3. PROBLEM STATEMENT

After review of literature various factors have been presumed i.e. level of black money and corruption, creating cashless economy, withdrawal problems due to demonetization, impact of new currency on business operations and benefits associated with the new currency. This paper tries to find out the impact of demonetization on retailers in tricity in context to these variables.

4. THEORETICAL FRAMEWORK

4.1. Monetary Policy Department

The Reserve Bank's monetary policy is formulated and implemented by its monetary policy department. The basic objectives of monetary policy involve maintaining price and financial stability, ensuring adequate flow of credit and to support economic growth. (RBI Publication, 2016)

4.2. Currency Management

Management of currency is one of the core central banking functions of the Reserve Bank for which it derives the necessary statutory powers. (Section 22 of the RBI Act, 1934) Also, the Reserve Bank has the authority and responsibility to design, produce and manage currency. The main motive is to ensure an adequate supply of genuine currency. In consultation with the Government, the Reserve Bank also handles problems related to security and enhancement of safety features to lessen the chance of counterfeiting or forgery of currency notes.

The Reserve Bank carries out the currency management function through its Department of Currency Management located at its Central Office in Mumbai, 19 Issue Offices located across the country and a currency chest at its Kochi branch. To facilitate the distribution of notes and rupee coins across the country, the Reserve Bank has authorised selected branches of banks to establish currency chests. (RBI Publications, 2016)

4.3. Rules for Withdrawals and Exchange of Currency

1. **Per day cash withdrawal limit from ATM:** With this there was a fixed limit on drawings amount from ATM's also. Initially a person can withdraw most effective ₹2,000 per card per day from ATM. But after 10 days of demonetization the limit was increased to ₹2,500 per card per day. This higher cash withdrawal restrict is to be had only at recalibrated ATMs that allows

you to dispense one high security ₹2,000 note and rest in the lower denomination. ATMs which have no longer been upgraded will hold to dispense ₹2,000 per card.

2. **Withdrawal limit from a saving account:** Initially weekly withdrawal limit from saving account was ₹20,000 but after 10 days of demonetization it has increased to ₹24,000. The maximum limit of ₹10,000 per day on such withdrawals has been removed, so that one can now withdraw up to ₹24000 in a single visit to the bank. (Economic times, 14 Nov, 2016)
3. **Withdrawal limit from current account:** Business entities who have Current Accounts and those current accounts are operational for last 3 months or more will be allowed to draw Rs.50,000/- per week. They could withdraw ₹50,000 per week during a single dealing or multiple transactions. This can enable the small commercial enterprise entities to pay wages to their workers and make sundry payments.
4. **Exchange of old notes:** First of all, for over the counter exchange against ₹500 and ₹1,000 notes the restriction was ₹4,000 but after 10 days it's been improved to ₹4,500. With this the banks can deliver lower denomination notes for ₹500 and at the same time dispensing the remaining ₹4000 through ₹2000 notes.
5. **Cash deposits** totaling ₹2,50,000 must carry a PAN Card: First of all, the limit for money deposits without PAN was ₹50,000 per dealing. Due to which plenty of individuals were depositing less than ₹50,000 to break out the PAN provision. However, in a while the government authorities issued a notification that any multiple deposits created between 9 November 2016 to 30 December 2016 need to require a PAN if the combined sum exceeds ₹2,50,000. This clarifies the misperception of the humans that one individual can deposit cash in couple of batches of much less than ₹50,000 each and get away the PAN provision.
6. **₹500 and ₹1,000 notes** were valid for key utilities, hospitals & petrol pumps till November 24, 2016.

4.4. Demographic Variables

Personal statistics that include information pertaining to an individual such as age, gender, education level, income are known as demographic variables. For the purposes of this study, 3 variables have been taken namely; age, gender and educational background. The level of significance for each of the variables will be assessed for issues related to demonetization in retail sector at Tricity. (Mohali, Chandigarh and Panchkula)

5. OBJECTIVES OF THE STUDY

1. To study the effect of demonetization on retailers in Tricity.
2. To analyze the overall impact of demonetization with respect to demographic variables.

6. RESEARCH METHODOLOGY

For the purpose of this study, the following hypothesis will be tested:

H₀: Demographic variables do not have significant impact on issues related to demonetization.

H₁: Demographic variables have significant impact on issues related to demonetization.

The research involves a sample survey based quantitative study of retailers, analyzing the benefits, problems and their overall outlook towards demonetization. The data was gathered by collecting responses through questionnaire from 280 retailers across Tricity. The samples were selected conveniently. Questionnaire is framed according to the five variables i.e. level of black money and corruption, creating cashless economy, withdrawal problems due to demonetization, impact of new currency on business operations and benefits associated with the new currency. Questionnaire is attached in the annexure.

The study uses a combination of two analytical techniques: Percentage Analysis to express the relative frequency of survey responses and ANOVA to determine whether the demographic variables (Age, Gender & Education) have a significant impact on the responses given by the retailers.

Percentage Analysis: Percentage method refers to a unique type of ratio that is used in making comparison among two or more series of data. The formula used in percentage method is:

$$P = \frac{x}{y} \times 100$$

where, x = Number of respondents falling in a specific category to be measured.

y = Total number of respondents

Mean: Mean also called as arithmetic average, is the most common measure of central tendency & can be defined as the value which we get by dividing the total of values of various given items in a series by the total number of items.

$$\text{Mean (X)} = \Sigma x_i / n$$

where, X = the symbol used for mean

Σ = Symbol for summation

x_i = value of the i^{th} item

n = total number of items

Analysis of Variance: When the means of more than two groups or populations are to be compared, one way analysis of variance (ANNOVA) is the appropriate statistical tool. This statistical technique is called as “one way” because there is only one independent variable. F-test is also used in the context of analysis of variance for judging the significance of more than two sample means at the same time. The basic principle of ANNOVA is to test for differences among the means of populations by examining the amount of variation within each of these samples relative to the amount of variation between the samples. Thus, while using ANNOVA it is assumed that each of the samples is drawn from a normal population & that each of these populations has the same variance. It is also assumed that all factors other than one or more being tested are effectively controlled.

If from two normal populations with equal variance, we draw independent random sample of sizes n_1 & n_2 respectively and $S_1^2 = \frac{\sum(X_1 - \bar{X}_1)^2}{(n_1 - 1)}$ is the unbiased estimate of variance of first population and $S_2^2 = \frac{\sum(X_2 - \bar{X}_2)^2}{(n_2 - 1)}$ is the unbiased estimate of variance of 2nd population, then static F is defined as:

$$F = S_1^2/S_2^2, \text{ if } S_1^2 > S_2^2$$

Or

$$F = S_2^2/S_1^2, \text{ if } S_2^2 > S_1^2$$

The ratio of two variances S_1^2/S_2^2 has a sampling distribution. F distribution is the theoretical sampling distribution.

7. MAJOR FINDINGS

The analysis of the study shall be conducted in two parts. Firstly, the data collected from 280 respondents will be analyzed by using Percentage Analysis separately for each response. Same has been done and is presented. Further, Analysis of Variance (One way) shall be applied to analyze the significant impact of demographic variables (if any) on the responses given.

7.1. Findings by using Percentage Analysis

1. From the available data, 79.29% of the respondents said that demonetization will definitely help in combating the level of black money and corruption. Though, 20.71% of the respondents did not agree to the statement, majority among the total seem to view demonetization as a good step taken by the Prime Ministers to combat black money.
2. Majority (76.78%) respondents feel that demonetization will surely facilitate the creation of cashless economy as it aggressively stresses upon the use of alternative digital payment methods by putting a limit to cash transactions. On the other hand, 23.22% respondents are of the view that this move on the part of the government cannot enhance the adoption of alternative digital payment methods stating that this practice will be limited to a few people only.
3. Most respondents (79%) faced number of problems related to withdrawals of cash due to demonetization decision. The most common problems were liquidity crunch in banks and ATMs. Alternatively, 21.43% said they did not face any problems because majority of their transactions were performed through digital payment methods.
4. 37% respondents were of the view that new currency is adversely affecting the retail business because of exchange problems, as smaller denomination notes were not available. However 63% respondents did not agree with this.
5. Majority (64%) of respondents agreed that there are some benefits associated with the new currency like ease in conducting financial transactions, cash back offers and discounts offered by mobile wallets like Paytm. On the other hand, 36% of the respondents said that there are some drawbacks of introducing new currency such as security risks, losing phones and overspendings etc.

7.2. Findings by using ANOVA

1. Table 6.2.1 (attached in annexure) depicts the mean difference analysis of issues related to demonetization with respect to different age groups. It is seen that respondents of all age groups have obtained highest mean value for “effect of 2000 rupee notes on business” with mean score being (M = 1.74). Moreover, it is seen that the youngest age group of (<30) and the age group (41 to 50) has obtained lowest mean value for “effect of demonetization on combating black money and level of corruption” with mean score of (M = 1.11, M = 1.12 respectively). Further, the age group of (31 to 40 years) have shown lowest inclination for “creation of cashless economy” with mean score (M = 1.18). It is clearly evident that respondents of all age groups are facing problems due to usage of ₹2000 notes as it is affecting their day to day business transactions. Further, it can be noted that age has no significant effect on all the variables except for ‘effect of demonetization on combating black money and level of corruption.’
2. Table 6.2.2 (attached in annexure) illustrates the mean difference analysis of issues related to demonetization with respect to education. It is clear that respondents have shown highest inclination for “effect of usage of ₹2000 notes on business operations”, with mean score (M = 1.67) & lowest mean values for “creation of cashless economy” & ‘effect of demonetization on combating black money and level of corruption’ with mean score (M = 1.14) each, which shows that they think demonetization will not help in combating black money and corruption. However, effect of education on mean difference has been found to be significant for “combating the level of black money and creating cashless economy.
3. Table 6.2.3 (attached in annexure) illustrates the mean difference analysis of issues related to demonetization with respect to gender. It is evident from the table that male respondents have scored higher on “effect of 2000 rupee notes on business” with mean score (M = 1.66), which means that females have experienced lesser problems due to 2000 rupee notes usage than males. On the other hand, lowest inclination has been shown by females for ‘facing withdrawal problem’ in comparison to males as their mean score is (M = 1.19), Further, it is clear that gender has no significant impact on all the variables except creation of cashless economy and benefits associated with demonetization.

8. CONCLUSION

After demonetization the government has driven the people to go cashless for mopping up taxes on every rupee being transacted. The strategy was to instantly nullify all 500 and 1000 rupee banknotes, and replace them with newly designed, 500 and 2000 rupee notes. It can be concluded that though there are many issues associated with demonetization, some major benefits were highlighted such as, ease in conducting financial transactions, cash back offers and discounts offered by mobile wallets like Paytm. On the contrary, the major problems faced due to demonetization were related to withdrawal of currency from banks and ATMs due to liquidity crunch and lack of planning. Though majority of the retailers showed positive responses in favour of demonetization, the demographic variables were found to have significant impact on some major issues, particularly related to benefits associated with demonetization, creation of cashless economy and impact of demonetization in curbing challenges of black money and corruption. Overall, the study revealed that despite of the challenges; demonetization has turned out to be a game changer!

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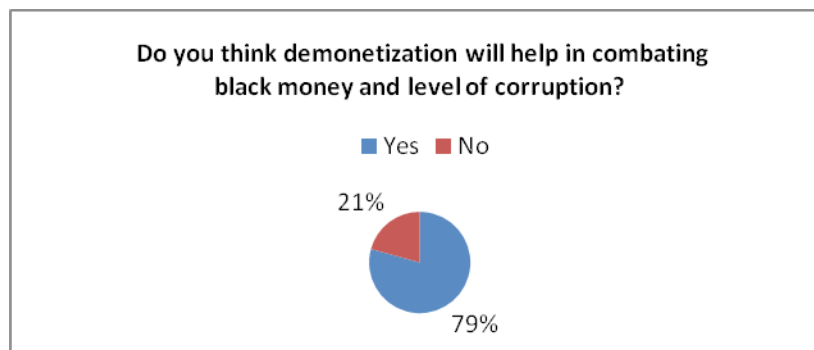
Annexure

Percentage Analysis

Demonetization Helps in Combating Black Money and Level of Corruption

Response	Total	Percentage
Yes	222	79.29%
No	58	20.71%

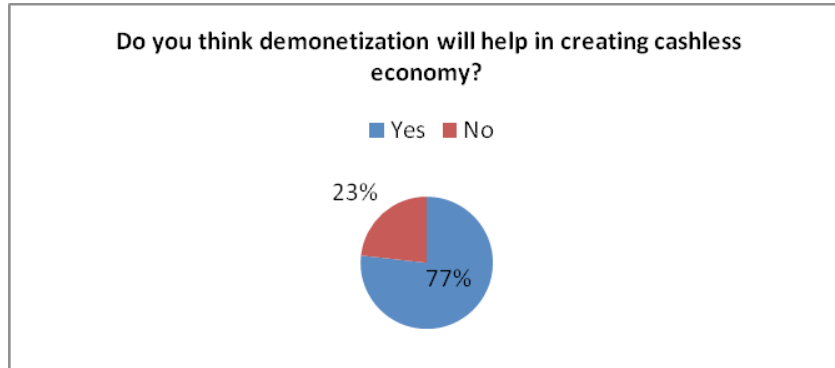
Source: Primary data.



Helpful in Creating Cashless Economy

Response	Total	Percentage
Yes	215	76.78%
No	65	23.22%

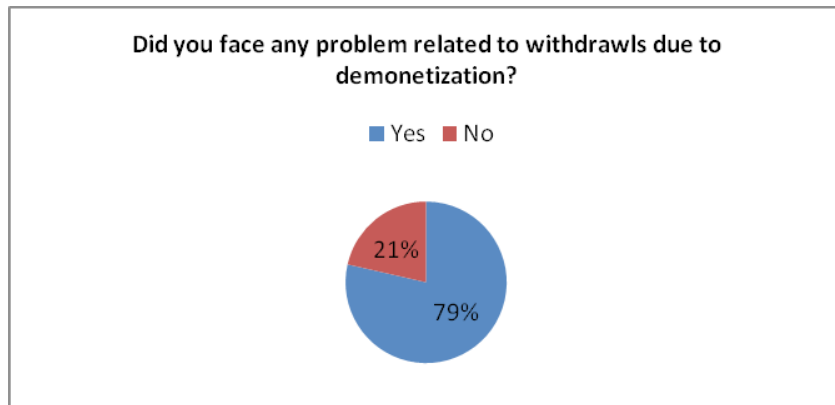
Source: Primary data.



Withdrawal Problem Due to Demonetization

Response	Total	%age
Yes	220	78.57%
No	60	21.43%

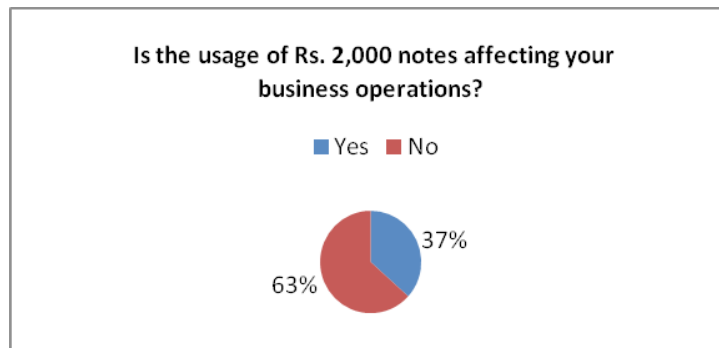
Source: Primary Data



Impact on Business Operations

Response	Total	%age
Yes	103	36.79%
No	177	63.21%

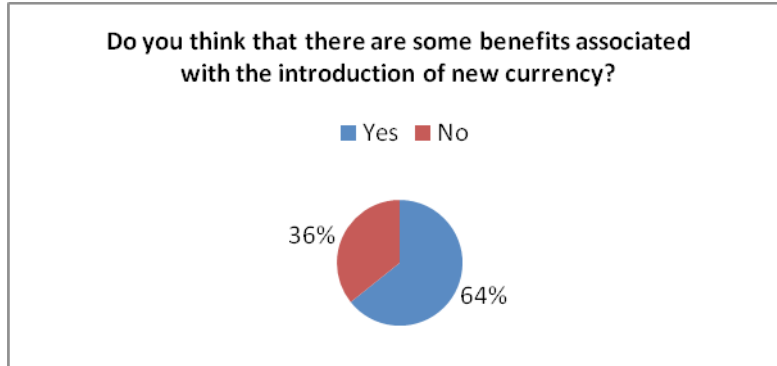
Source: Primary Data



Benefits Associated with New Currency

Response	Total	%age
Yes	180	64.29%
No	100	35.71%

Source: Primary Data



Mean Difference Analysis with Reference to Demographic Variables

Mean Difference Analysis with Respect to Age

	Less than 30		31-40		41-50		51 & above		F statistic
	Mean	S.D	Mean	S.D	Mean	S.D	Mean	S.D	
Do you think that demonetization will help in combating black money and level of corruption?	1.11	.317	1.29	.455	1.24	.422	1.12	.337	0.021*
Do you think that demonetization will help in creating a cashless economy?	1.27	0.447	1.18	0.388	1.30	0.463	1.19	0.398	0.240
Did you face any problem related to withdrawals due to demonetization?	1.22	0.419	1.24	0.429	1.23	0.422	1.13	0.337	0.460
Is the usage of ₹2000 notes affecting your business operations?	1.65	0.481	1.57	0.498	1.64	0.485	1.74	0.441	0.211
Do you think that there are some benefits associated with the introduction of new currency?	1.30	0.463	1.35	0.478	1.44	0.500	1.34	0.479	0.410

$\alpha = 0.05$

$p \geq 0.05, p \leq 0.021^*$

Mean Difference Analysis with Respect to Education

	Secondary		Graduate		Post Graduate		Others		F statistic
	Mean	S.D	Mean	S.D	Mean	S.D	Mean	S.D	
Do you think that demonetization will help in combating black money and level of corruption?	1.36	0.484	1.16	.369	1.18	0.386	1.14	0.351	0.007*

Impact of Demonetization on Retail Sector across Tricity: A Game Changer

	<i>Secondary</i>		<i>Graduate</i>		<i>Post Graduate</i>		<i>Others</i>		<i>F statistic</i>
	<i>Mean</i>	<i>S.D</i>	<i>Mean</i>	<i>S.D</i>	<i>Mean</i>	<i>S.D</i>	<i>Mean</i>	<i>S.D</i>	
Do you think that demonetization will help in creating a cashless economy?	1.42	0.498	1.15	0.354	1.27	0.447	1.14	0.351	0.004*
Did you face any problem related to withdrawals due to demonetization?	1.16	0.366	1.24	0.430	1.20	0.401	1.25	0.439	0.531
Is the usage of ₹2000 notes affecting your business operations?	1.59	0.495	1.65	0.478	1.61	0.493	1.67	0.478	0.809
Do you think that there are some benefits associated with the introduction of new currency?	1.41	0.495	1.31	0.463	1.45	0.502	1.31	0.467	0.221

$\alpha = 0.05$

$p \geq 0.05, p \leq 0.007, 0.004$

Mean Difference Analysis with Respect to Gender

	<i>Male</i>		<i>Female</i>		<i>F Statistic</i>
	<i>Mean</i>	<i>S.D</i>	<i>Mean</i>	<i>S.D</i>	
Do you think that demonetization will help in combating black money and level of corruption?	1.21	0.408	1.20	0.404	0.883
Do you think that demonetization will help in creating a cashless economy?	1.19	0.396	1.31	0.464	0.031*
Did you face any problem related to withdrawals due to demonetization?	1.23	0.419	1.19	0.396	0.510
Is the usage of ₹2000 notes affecting your business operations?	1.66	0.476	1.59	0.495	0.247
Do you think that there are some benefits associated with the introduction of new currency?	1.31	0.462	1.46	0.501	0.013*

$\alpha = 0.05$

$p \geq 0.05, p \leq 0.031*, 0.013*$

Questionnaire

This survey is for the purposes of academic research only. The answers or responses given will be treated with utmost confidentiality and will not be used for any other purpose apart from the research.

Age: _____

Educational Background: Secondary _____ Graduate _____ Post Graduate _____ Other _____

Gender: Male _____ Female _____

Income:

1. What do you think about demonetization?

2. Do you think demonetization will help in combating black money and level of corruption?

Yes _____ No _____

3. Do you think demonetization will help in creating a cashless economy?

Yes _____ No _____

4. Did you face any problem related to withdrawals due to demonetization?

5. Is the usage of ₹2,000 notes affecting your business operations?

Yes _____ No _____

If yes, in what way?

6. Do you think that there are some benefits associated with the introduction of new currency?

Yes _____ No _____

If yes, than what type of benefits?

Thank you for your time and participation!