

## Effect of Demonetization on Small Shopkeepers

Mr Rajeev Kumar<sup>1</sup>

### Abstract

Prime minister of India Narendra Modi addressed the nation on television channels at 20:00 IST on 8<sup>th</sup> nov2016 and announced the demonetisation policy. This paper discuss about the effects of demonetisation on the business of small shopkeepers. This paper discuss about the problem faced by shopkeepers due to demonetization and cope up strategies adopted by shopkeepers to meet cash crunch situation and shifting towards cashless economy. Convenience sampling method is used for the present study. Primary data has been collected through structured questionnaire focussed to the small shopkeepers.

**Keywords:** Demonetization, Small shopkeepers, Cashless economy

1. Assistant Professor at School of Management Studies, Baddi University of Emerging Sciences and Technology

### Introduction

**What is demonetization?** 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. Sometimes, a country completely replaces the old currency with new currency [5]

**The birth of a paper currency in India** Before starting any discussion on demonetization on Nov8, 2016 it is important to study history of the birth of paper currency to know how use of paper currency had been started in India. Until the 18th century, silver and gold coins were commonly used in India. But as private European trading companies established their own banks in the region, such as the Bank of Hindustan in Calcutta, they began issuing the very first versions of Indian paper notes, which were initially just text-based. As British companies began increasing their hold over what were then Bengal, Bombay, and Madras, they established presidency banks, beginning with the Bank of Bengal. This further popularised the use of paper notes. However, it was only after the Paper Currency Act of 1861 that the British colonial government really got involved in producing money, establishing the paper currency as we know it today. Money was now to be issued by the state alone, not banks. In 1935, the responsibility of managing India's money was handed over to the newly-established RBI. But perhaps the most important transformation over the years was technological. In 1944, fearing the infiltration of Japanese forgeries in the latter years of the Second World

War, RBI introduced a security thread for the first time on its notes, as well as an updated watermark. Decades later, in 1996 and in 2005, it released versions of a new “Mahatma Gandhi series” of notes. These came with an updated range of security features, including a latent image that could only be seen when the note was held up to light in a certain way. Special inks were used for the various texts and the notes carried details that could help the visually-impaired.[6]

**Demonetization in India before November, 2016.** The act of demonetization 2016 is not happening for the first time in India, but before it, has happened twice, first in the year of 1946 and then in the year of 1978. In January 1946, Rs1,000 and Rs10,000 banknotes were withdrawn but the same Rs1,000, Rs5,000 and Rs10,000 notes were reintroduced in 1954, and were again demonetized in January 1978. The second demonetization has taken place in the year of 1978 by the Janata Party government. It had decided to withdraw Rs1,000, Rs5,000 and Rs10,000 notes by issuing an ordinance on the morning of 16 January that year. The objective behind the all the acts of demonetization happened in past and happened recently is common reduction of black money, corruption and removal of fake currency. [7]

**What happened on demonetization?** Prime Minister of India Narendra Modi announced the demonetization in an unscheduled live televised address at 20:00 Indian Standard Time (IST) on 8 November [8][9] In the announcement, Modi declared that use of all ₹500 and ₹1000 banknotes of the Mahatma Gandhi Series would be invalid past midnight, and announced the issuance of new ₹500 and ₹2000 banknotes of the Mahatma Gandhi New Series in exchange for the old banknotes.

The BSE SENSEX and NIFTY 50 stock indices fell over 6 percent on the day after the announcement. [10] In the days following the demonetization, the country faced severe cash shortages with severe detrimental effects across the economy.[11][12][13] People seeking to exchange their bank notes had to stand in lengthy queues, and several deaths were linked due to the rush to exchange cash.[14][15]

**Reasons of Demonetization** According to The Reserve Bank of India, the most important reason for the demonetization of 500 and 1000 rupees note was to eliminate fake currency in India which has been used by terrorists groups to fund terrorist’s activities in India. Through demonetization government want to lower cash transaction in the economy which is main source of corruption in India and tackle the black money in the economy [16]

## Review of literature

**Geeta Rani(Nov 2016)** studied that initially the demonetization effects on market were painful but this also instigate the shopkeepers and consumers to adopt cashless means such as paytm, debit card use, internet

banking to buy goods. By adopting the cashless means economy will be sound in coming time and Indian Economy will get benefits of early and hassle free transactions.

**Dr. Ambalika Sinha, Divya Rai (Nov 2016)** concluded in their study that without adequate and proper planning; the demonetization-driven cash crunch has rendered Indian economy paralyzed for short duration as the informal sector which comprises of 40 percent share in GDP has become unviable. Many people do not have bank accounts where they are paid in cash are facing severe problem. Hours of working time is being wasted in standing in queues for exchange. More smaller denominations notes must be ensured in bank and ATM's quite ahead before so that this acute shortage of notes were not felt as people would already had in their pockets

**Vedashree Mali (Dec2016)** reported that Demonetization though it has created some positive and some negative impacts on different sectors but in long run it definitely will have positive impact in controlling black money and fake money.

**Dr. Partap Singh, Virender Singh (Dec 2016)** studied that if the money disappears, as some hoarders would not like to be seen with their cash pile, the economy will not benefit. On the other hand if the money finds its way in the economy it could have a meaningful impact. However experiences from different countries shows that the move was one of the series that failed to fix a debt-burdened and inflation-ridden economy.

### **Objectives of the Study**

1. To analyze effect of demonetization on small shopkeepers
2. To know the problem faced by the shopkeeper
3. To know the behaviour change in shopkeeper and consumer buying
4. To know the perception of shopkeepers towards demonetization

### **Research Methodology**

Research design was analytical in nature and was mainly based on primary data. Primary data was collected through survey method and face to face personal interview using structured questionnaire. Convenience sampling method was used for the present study. The sample size was 100 shopkeepers in Chandigarh and Mohali city

### **Analysis and Interpretation**

- 70% shopkeepers told that there was 40% decrease in sale due to non-availability of proper cash.

- 80% shopkeepers had to extend the credit facilities for consumers and span of credit time.
- The wholesalers denied extending the credit span of time.
- Shopkeepers started paytm facilities for consumers.
- Customer's footfall drop by 50%
- Most of the shopkeepers' perception towards demonetization was that it would bring more transparency in business and encourage cashless economy

## Conclusion

The study shows that in the beginning, shopkeepers faced many problems due to demonetization. Sale of goods and customer footfall dropped. But this painful situation encouraged the shopkeepers and customers to adopt cashless mode of payment such as paytm, debit card use. As per shopkeepers' perception, demonetization will lead to more adoption of cashless means which will bring more transparency in the business and there will be check on black

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