

## IMPACT OF DEMONETIZATION IN INDIA: AN OVERVIEW

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### ABSTRACT

*Demonetization is a generations' memorable experience and is going to be one of the economic events of our time. Its impact is felt by every Indian citizen. Demonetization technically is a liquidity shock; a sudden stop in terms of currency availability. It creates a situation where lack of currencies jams consumption, investment, production, employment etc. India has amongst the highest level of currencies in circulation at 12.1% of GDP. Cash on hand is an estimated at around 3.2% of household assets, higher than investment in equities, or roughly around \$ 220 billion of this cash, 87% is in the form of Rs 500 and Rs 1,000 notes or roughly Rs 14 lakh crores (\$190 billion). The argument posited in favour of demonetization is that the cash that would be extinguished would be "black money" and hence, should be rightfully extinguished to set right the perverse incentive structure in the Indian economy. The currency was demonetized first time in 1946 and second time in 1978. On November, 2016 the currency is demonetized third time by the present Modi government. Therefore, it is imperative to evaluate the short run and medium-term impacts that such a shock is expected to have on the Indian economy. Further, the impact of such a move would vary depending on the extent to which the government of India decides to reconvert. The paper elucidates the impact of such a move on the availability of credit, spending, and level of financial activity in India. It is based on secondary data collected from different newspapers and online sources, mentioned in references.*

**KEYWORDS:** *Demonetization, Cashless Transactions, Tax Evasion, Black Money, Financial Activity.*

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### Introduction

What the demonetization? As per "Investopedia", a demonetization is an act of removing the legal status of currency as "Legal Tender". Means old notes or even coins must be retired and replaced with new ones or completely new currency can be introduced like Rs. 2,000 note which was not available earlier. Demonetization has a big impact on Indian market and citizens like you and me. People flocked the banks to changed their currency and stood in long lines in front of bank and ATMs for hours to draw their money. Surely, we have problems in but we also need to understand the importance of it. Just imagine if it was told a month ago, then all black money launderers could have managed their money in this or that form. That's why it has to be a sudden and surprise act. Demonetization is the process of withdrawal of a particular form of currency from circulation. Demonetization becomes necessary whenever there is a change in the national currency. The old unit of currency must be retrieved and replaced with a new currency unit. It involves either introducing new notes or coins of the same denomination or completely replacing the old denominations with the new denomination which is usually carried out as an ambush on the black market. Demonetization refers to Withdrawal of a particular form of currency from circulation. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be removed and substituted with a new currency unit. A significant portion of the household cash on hand is generated by economic transactions that are not reported to tax authorities or generated through corruption. Scrapping the higher denomination money would either result in these being brought into the system or the money just

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