

Pros and Cons of Demonetization in India of Rs. 500 and Rs. 1000

***Jyoti Rani**

*Teaching Assistant, Department of Commerce, B.P.S.Mahila Vishvavidalaya,
Khanpur Kalan, Sonipat, Haryana.

Email: jyotibhanwala@gmail.com

Corresponding Address: V.P.O. Kasandi, distt. Sonipat, teh. Gohana

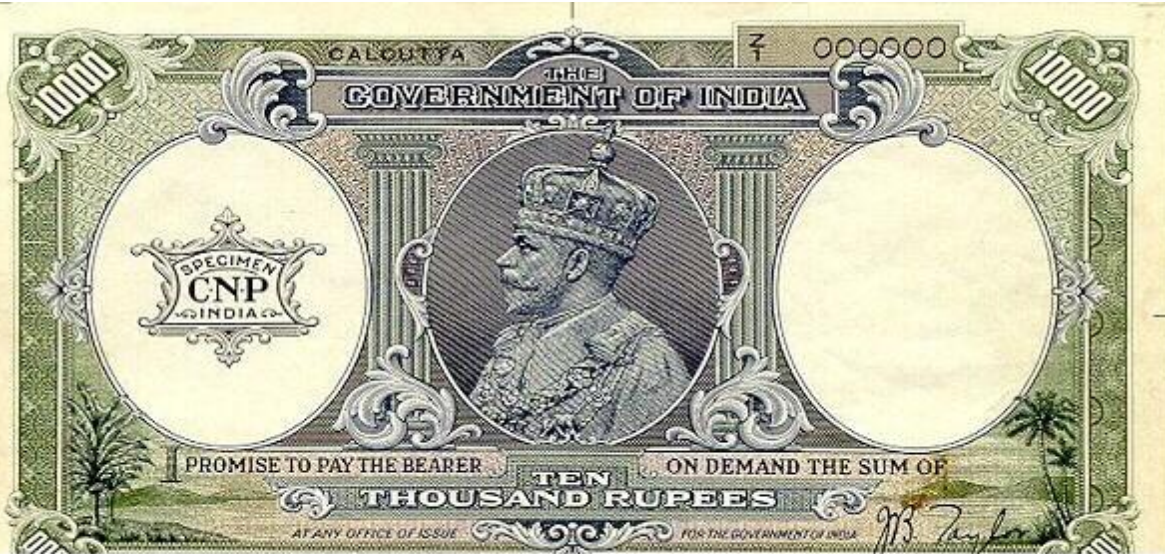
Demonetization is a very bold decision taken by the Indian government for eliminating the black money in India and it is best decision for converting the black money into white money. The major aim of the demonetization for the India is that make the India A Cashless Society.

Pros and Cons of Demonetization of Rs. 500 and 1000.

There some causes of demonetization of the Indian economy such as introduced the new currency, corruption and black marketing. The excess of the fake currency in the economy is the main reason of demonetization.

The Indian Government had announced on 8th November 2016 onwards rupees 500 and 1000 rupee note will not be a legal tender after that.

It means that five hundred and one thousands note will be accepted by anyone organization except that which are declared by the government. They can change their currency from the banks and the post offices till 30th December 2016. This is not the first step taken by the government for converting the black money into white money but the first instance took in 1946 and the second in 1978 when an ordinance was published to phase out notes with denomination of Rs. 1000, 5000 and 10,000. The highest denomination note ever printed by the RBI of India was the Rs. 10,000 note in 1938 and again in 1954. But these notes again demonetized again in January 1946 and again in January 1978 according to the published data by the reserve bank of India.



RBI Rs.10000 Note in, 1938

The rupees 1000 and 10,000 bank notes were in circulation prior to the January 1946 and the higher demonetization of banknotes of the Rs. 1,000, Rs.5, 000 and Rs. 10,000 were reintroduced in the 1954 and all of them were demonetized in the January 1978.



RBI Rs. 10000 Note In, 1954

After some time later, the 1,000 notes made a comeback in November 2000 in the new design. The new notes Rs. 500 were circulation in the October 1987.

Major Impact of the Demonetization in the Indian Economy

There is huge impact of Demonetization on the Indian Economy due to the stoppage of the 500 and 1000 notes. The direct impact of this decision on the money circulation.

Pros and Cons of Demonetization in India

1. Attack on black money holder

Those people who have possessed the huge amounts of black money in the hard cash are a complete loss due to the demonetization. Their black money now a pile of trash. If a black money holder want to deposit amount in the bank account than she/he has to show ID proof. And there will be 200% penalty on Income Tax Amount.

2. Death Knell to Fake Currency Rackets

Due to the banning of Rs. 500 and Rs. 1000 notes, Modiji has busted all these unethical issue completely. Now there will be no use of this money.

3. End of terrorists funding

Most of black money especially in hard cash was used for the Islamic terrorists and other non-state actors. Now these types of organizations will suffer from shortage of funds. Most of these terrorist, Maoist Organization used these funds for buying the arms and weapons and buying arms is an extremely difficult task after the ban of the Rs. 500 and Rs. 1000.

4. Transparency

Due to the online transaction, more transparency increased= Financial Intelligence Unit will tack all the online transactions. Now there will be more online transaction in the real estate sector

5. Towards a cashless economy

It is not possible or practically to have a 100% cashless economy and the proportion of the hard cash in the economy will decrease and our economy will be get more digitized which helped for the development of Indian economy.

The positive macro benefits of this move by the government

This move taken by the government is likely helpful for the long term benefits for our economy. The extinguishing of this major proportion of unaccounted currency which reduced the liabilities of the government sectors which further result into the interest rate is low. The government spending on large infrastructure projects and pushes the economic growth rate higher in the medium term. This move is also helpful to have a habit changing impact in the Indian populous and there could be increased belief of keeping cash in the banks rather than stashed at home and use the formal banking channels for their spending needs in the market places. So with the large part spending of the cash transaction through the banking channels, the banking sector is likely to be flush with the funds in the near term and this is also help them to reduce the cost of funds for such period. And the another movement of the demonetization would be reduction in the cash transaction in the real estate. The demonetization and consequent reduction is shadow economy would brings the demand for the farm land.

Cons of demonetization: some of list of cons of demonetization

1. Rush in the Banks

Due to the demonetization, banks will be extremely over-crowded by people and people will forget everything else and go through where the banned notes will be exchanged leading to a tremendous chaos.

2. Stock market

When demonetization occurred then the stock market sucked out the market coupled with trump's victory, the mood at the stock market was completely bearish. Sensex lost 1600 points at open. This can adversely have a negative effect on the trade in general.

3. Short term inflation

Short term inflation arises due to the shortage of the money supply in the market and short term cost push inflation will occur. The price of the gold became high of this

decision of demonetization. The price of the vegetables and fruits has also soared burdening the common man.

Effects of the demonetization in the Indian Economy

- **Effects on the parallel economy**
- **Effects on the prices**
- **Effects on Money Supply**
- **Effects on the Demand**
- **Effects on the GDP**
- **Effects on online Transactions and alternative mode of payment**

Yes, Demonetization will be slow down the growth rate of the Indian economy in the short and medium term because people have less money in their hands. So demand is low due to the shortage of the cash that is why which hampers our growth rate. But as soon as, people get the money then ultimately markets will be back on their past track. But some people thinks that it will be benefits for the economy because government will have more revenue but others say giving a electric shock to the economy when its already under the distress business sentiment can send it into coma.

India is a cashless economy and demonetization will be temporarily decrease the liquidity will lead to decreased demand which will result in decreased productivity causing a slowdown in consumer market. Thus a decrease in demand leading to slowdown in consumer market.

Guidelines given by the government as to what citizens could do post this decision

Deposit old notes of the Rs. 500 and Rs. 1000 in bank or post office account from the 10th November till 30th December 2016 without any limit. There will be a limit for the withdrawal: Rs. 10,000 per day and Rs. 20,000 per week. This limit will be increased in the coming days. Exchange of the old currency notes of Rs. 500 and Rs. 1000 at any bank, head post office or sub

post office while showing ID proof. The limit for this is Rs. 4,000 up to 24th November.

No restriction of any kind of the non-cash transaction by the cheques, demand drafts, debits and the credit cards and any type of the electronic fund transfer. After that on the 9th November and in some places on the 10th November also ATMs will not work. In the first few days, there will be a limit of Rs. 2000 per day per card. This will be raised to the Rs. 4000 later.

Sources: Finance Ministry Website