

Cognizing Demonetization: A Survey Study

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ABSTRACT

In India, recent changes in economic policy have contributed to reshaping of the economy. One such change agent has been demonetisation. Technically, Demonetization is the act of ceasing a currency unit of its legal tender status. The current form of money is extracted from the circulation, retired, and replaced with new currency. Changes in the monetary policies, like any other changes in society, have a tangible impact upon the money related thinking of people. Within the human mind, the decisions to spend, invest, or to save money are understood in terms of opening of mental accounts (Thaler, 1999), followed by financial analyses and then finally reconfiguring the money related cognitions leading to such decisions where after the mental accounts can be closed. All human transactions in the market utilize either money or a token of money. Basically, whenever a change in either of these two takes place, human cognitions need to undergo a consequential transformation. Behavioural Economics understands that whereas the world of money in the market seems appropriate and logical in the context of transactions, human mind is predictably irrational and must understand and stabilize the change needed in a new cognitive set-up in the context of money. Against the background of the contemporary financial changes, the present study aimed to understand the demonetization linked cognitive modifications in the human mind since the state of mind undergoes changes during such events. The sample consisted of 90 participants which were uniformly divided into 3 segments: service providers, decision makers in businesses and students, all having minimum graduate qualification. A survey was devised to study the cognitions and subsequent behaviour indicators of people across these three segments individually and comparatively. The information thus collected gave valuable insights into the dynamics of demonetisation as reflected in human cognitive setup.

Keywords: *Demonetization, Mental Accounts, Behavioural Economics*

Demonetization is the act of ceasing a currency unit of its legal tender status. Demonetization is essential whenever the national currency is to be changed. Currency is a commonly accepted form of money that includes coins and paper notes, issued by the

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country's central bank or a monetary authority in accordance with the government and circulated within the economy. The national currency of a country is usually the principle currency which is used as a medium for most of the financial transactions taking place in that country. In India, the currency is referred to as the Indian Rupees (INR). Mostly the central bank of a country has the absolute right to issue the currency of a country. During demonetization the current form of money is extracted from the circulation, retired, and replaced with new currency. It can involve either introduction of new currency of the same denomination or entirely replacing the old denominations with the new one which is usually done as an ambush on the black market. India has witnessed the process of demonetization three times: firstly on 12th January 1946, the second one on 16th January 1978, and, the third and most recent was on 8th November 2016 by Prime Minister Narendra Modi.

In the declaration of demonetization on 8th November 2016, the use of high-value denominations of Rs.500/- and Rs.1000/- banknotes were made invalid after the midnight of the same day, and the new Rs.500/- and Rs.2000/- banknotes were to be issued in exchange for the retrieved old currency notes. This decision by the government was taken with an endeavour to eliminate a reasonable volume of black money, curb the corruption, counterfeit currency as well as terror funding. The action is contemplated as the biggest cleanliness drive against black money in the history of Indian economy whose payoff will be reaped in the long run.

Impact of Demonetization among Different Segments

Implementation of the rapid move of demonetization caused a major cash crunch in the economy that had an impact on several domains.

Impact on Individuals

On hearing the announcement of demonetization, the whole country was stunned. India witnessed several short-termed effects. Bank's cash counters and ATMs across the country were overloaded because of massive rush and cash shortages i.e. high demand and less supply. The shortage of cash led to chaos and disorder among people intending to swap their old banned notes. There were endless queues with lengthy waits. The machines would also run out of cash soon after only a few hours of being operational, and many of the ATMs in the country were not even functional. The decision seemed to adversely affect the short-term consumption needs of lower and middle-class families who generally use cash as their primary mode of payment for daily transactions. The people living in the remote areas of the country where there are no bank accounts or identity proofs seemed to be confronted with sudden unreality. Several deaths were also reported to be linked with the difficulty in replacing old currency and lack of medical facilities or preparations by hospitals due to denial of old currency. There was a mixed reaction among people, towards Demonetization. It seemed to have created stress in an otherwise static state of affairs. The reasons for such a Stress were financial as well as psychological.

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Impact on Businesses

Demonetization drive impacted the flow of cash and hence the cash transactions. Earlier, cash transactions were the only means of doing business and so the retardation in these transactions led to a halting of the businesses due to its effect on the liquidity of the currency, more so for small businesses, even though the break in flow was temporary. The labour-intensive sectors viz. construction and agriculture sector went through sudden changes as these require raw cash for the purchasing of raw materials and for payment to daily wage labourers. Significant impact on the MSMEs' sector could also be seen as it is majorly driven by the contractual and daily wage work force, and majority of them do not have their bank accounts at the location of their work. Due to the declining monetary supply with simultaneous rise in bank deposits, the consumption demand was adversely affected. This, coupled with the impact on real estate, construction and other informal sectors led to more Stress. The effects of demonetisation naturally percolated on to the personal lives of the employees of the above organisations.

Impact on Banks

Banks channelized the implementation of currency exchange. The suddenness of demonetisation and the subsequent actions reportedly brought hordes of people to the banks and this caused crowding in the banks. In terms of currency security, the banks were reportedly faced with a challenge. With the banks jammed, the bank employees were in an extremely stressful state due to longer hours of duty and due to pressure from the clients. It was reported that many bank employees had to work overtime, cut down their breaks, and manage with a hectic jam-packed schedule for days. However, post that period, it was expected that there would be low cost of cash handling, and more usage of digital platforms such as, e-wallets, e-banking, debit and credit cards, etc. With higher deposits in banks post-demonetization, the liquid funds in the funds were expected to enhance.

REVIEW OF LITERATURE

Studies relating to demonetization in India is a relatively new and significant area of research rising only post-demonetization declaration. It can be considered as a significant area of research in the field of Psychology, especially Behavioral Economics. As a result, some significant researches have recently been carried out in the area. According to a study carried out by Kanakalatha (2017) in the vicinity of demonetization it was found that the unexpected withdrawal of 86 percent of currency notes from the process of people making, selling, and buying things will not reduce people's dependency on cash in the near term, bank deposit levels will benefit in a "more meaningful fashion" once the cash transactions (that aren't taxed or watched by the government) is brought into the formal process (of people making, selling, and buying things) over the next few years. People will have no choice except to deposit their cash in banks so that all the unaccounted money is supposed to be deposited in the banking system. Another study on socio-economic effect of demonetization in India was conducted by Dash (2017). The study showed that the impact of demonetization was felt more in the social sector and the worst affected were the poor and the common people. It became evident that India is moving towards cash less economy which would eliminate

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black money to a large extent but educating people on the online transaction is a huge challenge. Finally, as a relief to poor people, Government of India had announced that black money retrieved from the demonetization measure will be deposited for four years without interest on Kalyan Yojana to benefit the poor in marriage. This would create a positive impact on the social sector in the long run. Thus, the social as well as the banking sector saw transition in economy in terms of demonetization and it took effort on the part of the people to acclimatize to the new system. Stress is but natural in such conditions. In this context, in an earlier research conducted by Malini et al (2016) on Emotional Exhaustion, Mood and Tension among a Group of Bank Employees vis-vis the Demonetization Phase 2016, to tackle the case of demonetization, banks have done commendable work by putting in extended hours of untiring endeavour in managing banking transactions, which has taken a great toll on the psychological health and physical health. According to Schueth (2017), demonetization turned out to be less successful at promoting a transition to a cashless society. Only 3% of the sample population were the new adopters of mobile money services. India remains in the early stages of DFS adoption post-demonetization. During the cash shortage period, only a small portion of the study group (7%) adopted cashless payments to facilitate transactions. Almost all merchants remain cash-dependent. Mobile money showed a minor rise in users relative to other financial services. (Schueth, 2017). Demonetization also surged the utilization of financial services that overcame longstanding demographic barriers, with some exceptions (Gupta, Asher & Jain, 2017). Over the pre- and post-demonetization period, it was observed that women and rural residents advanced on the customer journey at greater rates than did their male and urban counterparts, lessening the gender gap and eliminating the locality gap. The income gap widened, however, suggesting that poverty will remain a strong barrier to financial inclusion (Schueth, 2017).

METHODOLOGY

Objective

- The objective of the qualitative study was to understand the cognitive modifications in the human mind as a result of Demonetisation, among different segments of stakeholders.

Design

For this exploratory study, a survey measure was devised to understand the cognitive modifications in the human mind as a result of Demonetization. The survey was administered on a mixed sample of 90 stakeholders. The data was then compiled, and the results were tabulated, graphically represented, and discussed.

Sample

The sample was mixed and comprised of 90 stakeholders, uniformly derived from three segments i.e. thirty each from each of the segments under focus viz. bank employees, decision makers in businesses, and students, all having minimum graduate qualification and middle socio-economic strata. Specifically, the stakeholders in the banking segment comprised of individuals of 25-35 years age range working in banks, the decision makers in

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businesses composed individuals of 25-35 years age group working in SMEs with the company size ranging from 200-500. The students segment belonged to 20-30 years of age group, all having minimum graduate qualification.

Measures

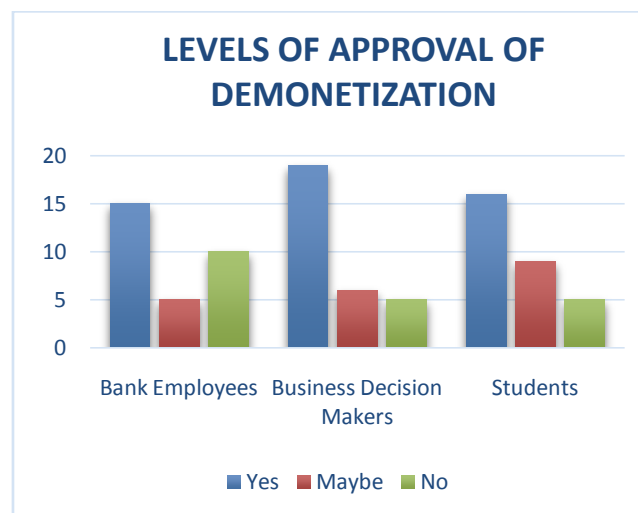
Survey on Demonetization: In the absence of a questionnaire for such a sudden development as Demonetization, the survey in hand was envisaged to examine the attitudes and perspectives of individuals with respect to the impact of demonetization, locally. The items targeted the self-experience of the stakeholders. The Survey is a 14-items measure with one subjective and thirteen multiple-response type questions. It may be noted that this Survey was carried out after the Demonetization process was over and therefore the questions might be answered with the Stakeholders present state of mind.

Procedure

The Survey on demonetization was devised and administered individually to the participants once the rapport was established. The participants were assured about the confidentiality of their responses. The responses were compiled on the bases of the responses within and across the categories of the Stakeholders.

RESULTS & DISCUSSION

The responses of the participants were compiled question wise in terms of Bar diagrams and Pie Charts, as follows:

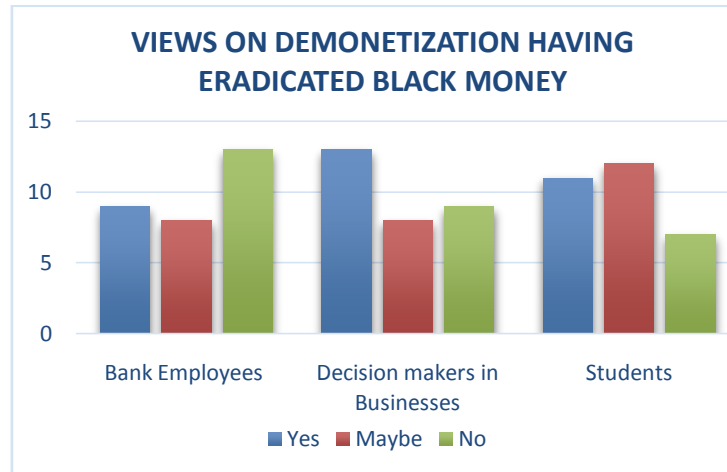


GRAPH 1: Showing the segment-wise levels of approval for demonetization as reported by the participants

According to the survey report, among the **Bank employees**: 50% of the participants expressed their approval towards Demonetization, 33.34% of participants reported their disapproval towards Demonetization, and about 16.66% of participants were not sure of their standing.

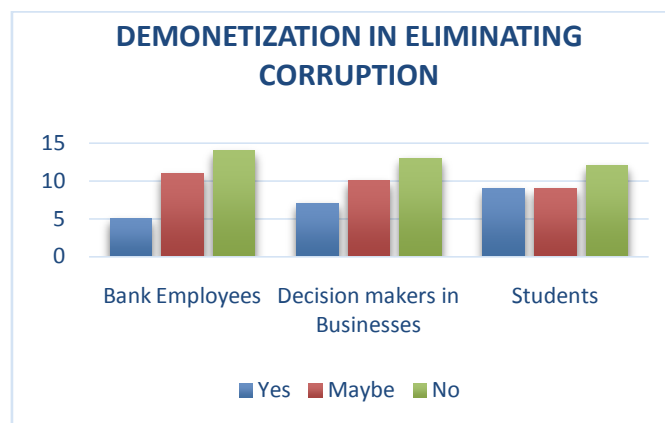
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Among the **Decision-Makers in businesses**, 63.33% of stakeholders were in favour of demonetization, 50% reported that they do not support it, and 20% took the neutral stand. Within the **student's** segment, 53.33% of the students were in favour of demonetization, 30% students criticized it, and around 16.67% of students chose to take a middle stance.



GRAPH 2: Showing the segment-wise views of the participants in terms of whether demonetization would control black money

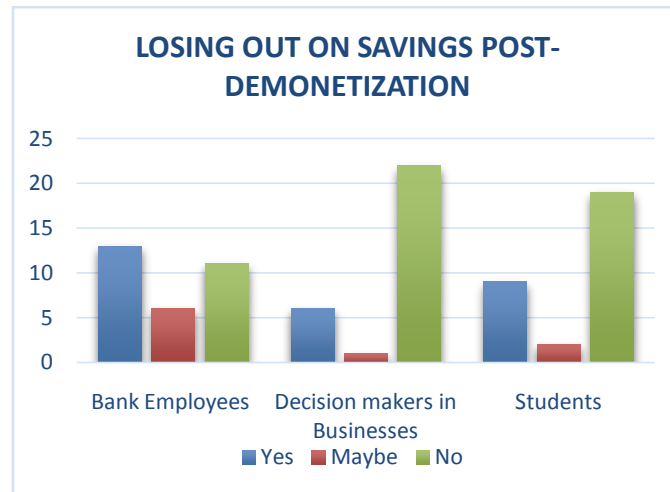
It was found that the decision makers in business segment reported maximum affirmation (43.33%) to the statement that demonetization would help eradicate black money, followed by Students (36.66%), and Bank Employees (30%). Whereas, it was seen that the Bank Employees segment expressed high levels of refusal to this statement (43.33%), followed by business segment (30%), and Students' segment (23.33%).



GRAPH 3: Showing the segment-wise responses of participants regarding whether demonetization would control corruption.

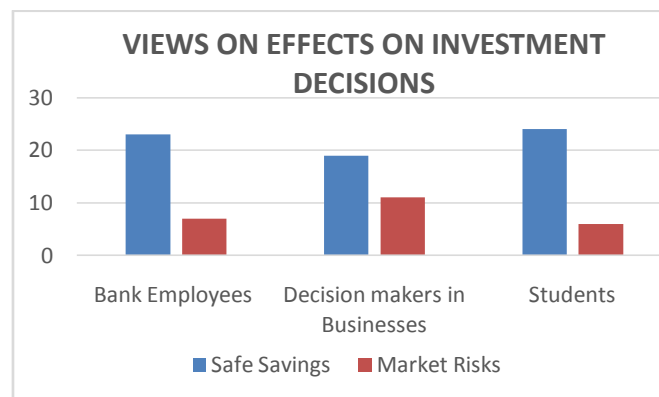
It was observed that there were high levels of disapproval among both, Bank employees and business segments, regarding the idea that demonetization would help to curb the existing corruption with 46.66% and 43.33% of recorded response respectively, followed by only 23.33% of disapproval among the students' segment.

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GRAPH 4: Showing segment-wise responses of participants regarding their loss of savings post-demonetization

With the implementation of demonetization, the maximum amount of savings lost was reported by the participants in Bank employees' segment (43.33%), followed by Students' (30%) and Business segment (20%). Moreover, it was observed the least amount of lost saving was reported Business segment (73.33%), followed by Students (63.33%), and then Bank employees (36.66%).



GRAPH 5: Showing the investment decisions of the participants according to their segments
On being asked the kind of investment the participants would prefer to engage in, it was seen that majority of the participants chose safe savings. Further bifurcation revealed that, 80% of the students preferred to invest in safe savings with only 20% of investments in market risks; 76.66% of Bank employees favoured safe savings as compared to 23.34% participants who chose risky investments; and, 63.33% of Business Decision Makers favoured Safe saving with only 37.67% going for risky market investments.

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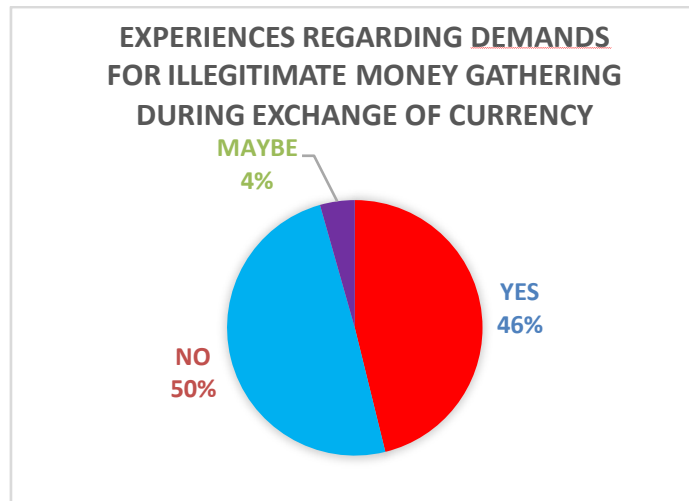


FIGURE 1: Showing the percentage of responses given by the participants about being asked for illegitimate money

The participants were asked whether they witnessed any demands for illegitimate money or other related demands for progression of their work in public offices. It was recorded that 50% of the sample population had not faced such a situation, 46% of the participants have in fact witnessed such illegitimate demands for work completion in public offices, and 4% of the participants were not sure.

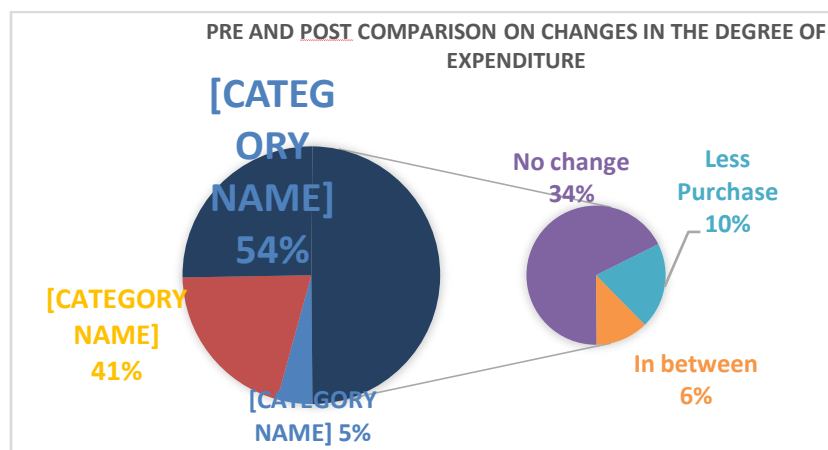


FIGURE 2: Showing the percentage of responses given by the participants about changes in their expenditure post-demonetization

The participants were also asked whether they witnessed any transition in their expenditure immediately after the implementation of demonetization. It was found that 54% of participants reported undergoing changes in expenditure, while 41% did not experience any change. The participants were also asked if they began purchasing less post-demonetization and it was seen that 10% began to purchase less post demonetization, 34% continued making purchases at the same pace, and around 6% of them were not sure about their expenditure.

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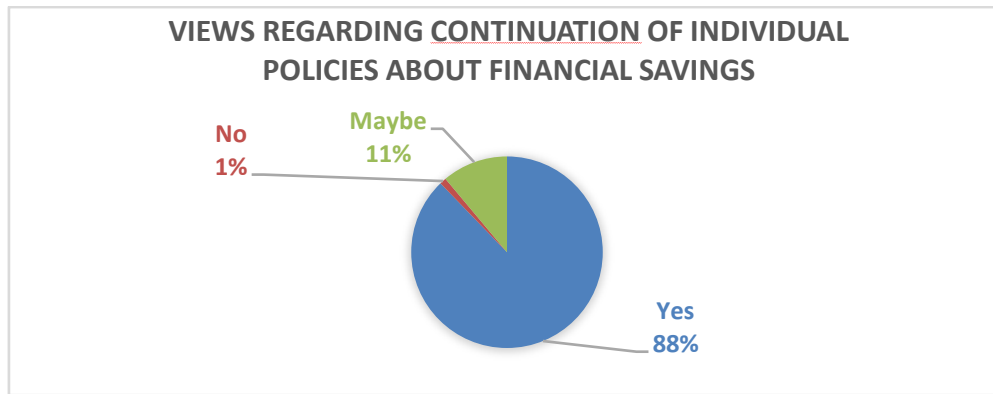


FIGURE 3: Showing the percentage of responses given by participant regarding their views on continuing to save About 88% of the participants reported that they would continue to save despite all the risk produced post demonetization, 11% of the participants leased a middle stand with no extremes chosen, and only 1% of the total population reported that they would not indulge in savings in the future.

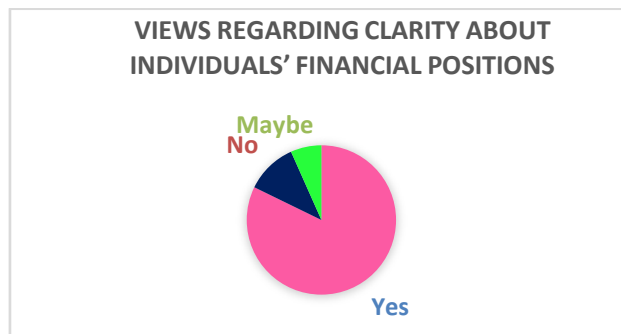
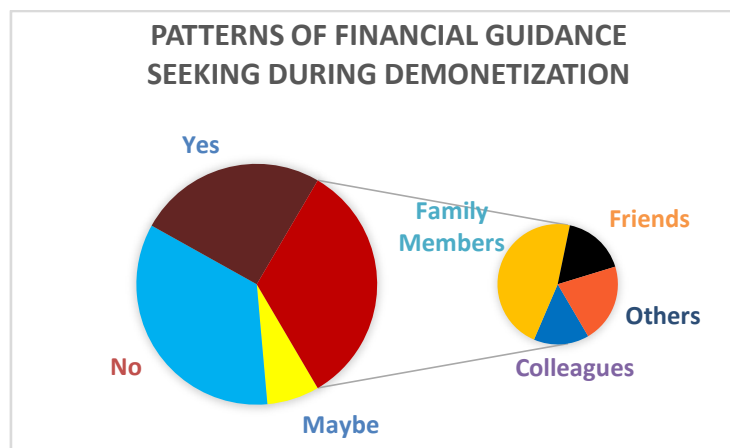


FIGURE 4: Showing the percentage of responses given by participants regarding their clarity of financial position post-demonetization Since some time has passed after the implementation of demonetization, participants were asked about having clarity about their financial position. It was noted that about 82% of the participants have a clarity about their financial position, 11% of the participants do not have any clarity, and 7% of participants are not sure about their status.



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FIGURE 5: Showing the percentage of responses given by participants regarding whether they took guidance for demonetization and from whom. The participants were asked whether they took any guidance to acquaint themselves with the process of demonetization, 54.44% of participants reported that they did not undertake any guidance, 40% of the sample reported having taken guidance.

Out of those who did seek guidance, it was noted that 61.11% of participants used family members guidance, friend's guidance was obtained by 22.23% of participants, 19.44% approached their colleagues, and 27.78% of participants procured other people's guidance.

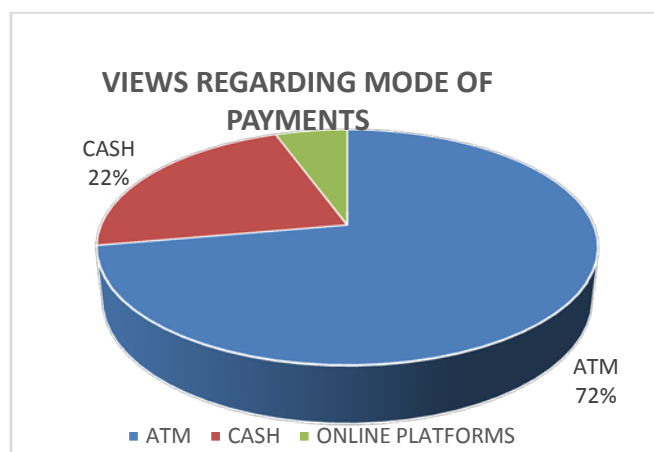


FIGURE 6: Showing the percentage of responses given by the participants about their medium of payments

The participants were also enquired about the medium of payment they tend to engage in while making purchases. It was observed from the recorded responses of the participants that around 72% of the participants were accustomed to use ATMs as their principal medium of payment. The second payment medium that participants operate with was cash i.e. 22%, followed by 6% of use of online platforms of payments.

CONCLUSION

The exploratory study brought out the major foci of Demonetization cognizance. The significant aspect of the study was to sharpen the lens on functional cognizance. Perceptions based on experiential dynamics systematize novel cognitions. The study in hand is a part of a longer study and therefore it merely catalogues the collusion of market and mind perceptions of the demonetisation phase. It does not anchor a belief system. Rather it enlightens us about the needlessness of one.

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Conflict of Interest

The authors colorfully declare this paper to bear not conflict of interests

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