Effect of Demonetization on Keynesian's demand for money and Real (Product) Market Changes in Chennai City

Navin kumar Jha[1], Selvaraj. M[2]

[1] *Associate Professor Christ University Banglore, Karnatka*
[2] *Assistant Professor, Loyola College, Chennai, Tamil Nadu*

Abstract: The analysis of the Money Demand Functions (MDF) is one of the best approaches to examine the market structure. Recent studies analyze the properties of several MDF in different countries. Lütkepohl and Wolters (1998) or Beyer (1998) investigated whether the MDF would remain stable despite the German unification. Dekle and Pradhan (1999) studied the case of some Asian emergent countries, while Torsen (2002) focused his research on developing countries as, for example, Mongolia. Therefore, the analysis of the MDF is an important subject of investigation for both, academic researchers and policy makers. At the initial stage of the demonetization, though the government of India (present ruling party) came up with various concrete resolutions such as to tackle black money, to lower the cash circulation in the country which "is directly related to corruption, and to eliminate fake currency and dodgy funds which have been used by terror groups to fund terrorism in India. Demonetization might have troubled even the honest people to the larger extent in the society. The policy makers tried to scroll the situations with many more surprising humdrums of frequent changes in the withdrawals and deposits of currency, creating intensified scarcity of circulation of lower denominations, promoting of cashless economy and sudden digitalization, all made a fuel on the fire. The present study of effect of demonetization on Keynesian's demand for money and real market in Chennai city is based on both primary and secondary data. There are 50 stratified random sampling collected using scheduled questionnaires. The basic statistical tool such as frequency distribution, mean, standard deviations and graphical representations are used for data analysis. As the data clearly indicates (in table 2) that around 92 per cent of the people who had spend on an average of 12. 5 hours out of 5 working days just to exchange/withdraw their own money from the banks. This is as per the labor law, 1.5 days of wage/salary loss of the employees per week.

Key Words: economists, Schedule, employment, market, distribution, demonetization.

I. INTRODUCTION

The Government of India has been trying their level best to bring the present demonetization policy implementation as one of the essential and inevitable part of the framework required for betterment of our economy. Hence, the announcement of demonetization of higher denomination of Indian currency was taken into considered as the surprise move which entails numerous benefits for the Indian economy. At the initial stage of the demonetization, though the government of India (present ruling party) came up with various concrete resolutions such as to tackle black money, to lower the cash circulation in the country which "is directly related to corruption, and to eliminate fake currency and dodgy funds which have been used by terror groups to fund terrorism in India. Demonetization might have troubled even the honest people to the larger extend in the society. The policy makers tried to scroll the situations with many more surprising humdrums of frequent changes in the withdrawals and deposits of currency, creating artificial scarcity of circulation of lower denominations, promoting of cashless economy and sudden digitalization , all made a fuel on the fire. In most of the developing countries the normal market economy transactions are made out of cash even to the extent of about 80 per cent of GDP including country like India. Normally the shortage of money supply leads to the direct conflict between factor market and tax authorities and potential conflict between different groups of workers. Hence, the intensive scarcity of money supply by the government is directly attempted to reduce the rate of inflation in the economy. Therefore the present study is mainly focus to review the market factor and its impact on demonetization.

Fortunately or unfortunately the opinion, observation and forecasts of the market system got the solution to this problem, would at first sight appear to be very simple. One of the announcements of the government of India that all needs to be done is for the government to make low-interest credit available to big enterprises. Enterprises will then be able to pay their workers and buy the raw materials they need to expand

production, at the same time freeing them from dependence on other criminal structures like corruption. The government will also receive its taxes properly and promptly, so it will not have to borrow or depend on anybody else. But the problem is that demonetisation is not just a shortage of money, it is a whole economic system. Without breaking this system, increasing the supply of money could make the problem even worse.

Objectives of the Study
The present paper focuses about three main objectives. They are:
1. To review the opinion of the respondents about demonetization
2. To analyze the direct and indirect economic and non-economic effects of demonetization
3. To study the effects on Keynes's purpose of demand for money and demonetization.

II. NEED AND REVIEW OF THE STUDY

As per the demographic census of 2011, India had been recognised as the second largest country having more working age population in the world next to China. Even, this situation was forecasted and insisted by the census that India will overtake China in terms of working age population by 2030. Youths are the back bone of the country's economy; therefore the government of India and policy maker are in a responsible place to uplift our society to a new higher layer through creating a massive employment opportunity. This is one of the hidden reasons that have been observed by some of the economists and experts to support at the policy level initially.
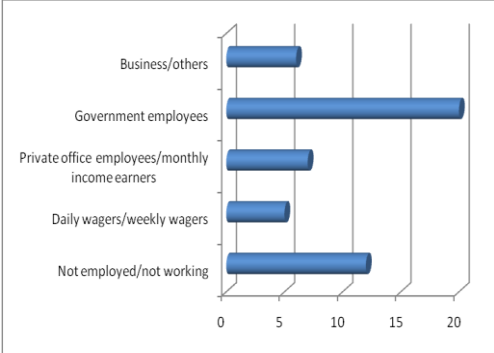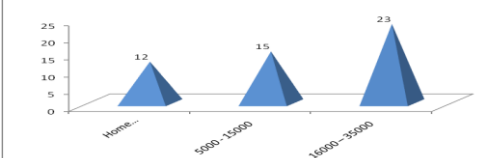
The fundamental change in the economic course through demonetisation is the most urgent problem facing by the government of India to regularise and solve the tax evasion problem. Thus both the government and the mass of the population have an interest in working together to solve this problem. Now the government has begun to take small steps in the right direction, but so small as to have had an insignificant impact for what was purposed. This is because the government and its economic strategy not on securing the support of the population, but on collaboration with some giant industrialists precisely those groups which monopolise economic power in the country and whose interests are most strongly connected with the continued criminalisation, monopolisation and demonetisation of the economy. This brings the government into increasing conflict with the mass of the population who are the principal victims of the present system. The government must develop a systematic programme of radical policies which will put the institutional structures of a law-based market economy in place. The present reforms can only be effective in a framework of sustained economic expansion which will allow the majority of enterprises to cover the costs of production, debts payment and even undertake new investments. Otherwise law-based market economy promises only a further fall in production and massive rise in unemployment. On the other hand, such reforms can only be effective if the government appeals for the active support of the mass of the population in carrying through its programme.

III. METHODOLOGY AND DATA ANALYSIS

The present study of effect of demonetization on Keynesian's demand for money and real market is based on both primary and secondary data. There are 50 stratified random sampling collected using scheduled questionnaires. The basic statistical tool such as frequency distribution, mean, standard deviations and graphical representations are used for data analysis.

Table - 1: Personal Frequency Distribution of the Respondents

S. No	Profile	Domain	F	%	Graphical Representation
1	Sex	Male	28	56	
		Female	22	44	
2	Age	20 – 35	17	34	
		36 – 50	19	38	
		51 - 65	14	28	
3	Education	High school	9	18	
		Higher secondary	16	32	
		Degree / diploma	25	50	
4		Home	12	24	

	Type of occupations	makers/students/senior citizen			
		Unorganized	12	24	
		Organized	20	40	
		Own business	6	12	
5	Occupation	Not employed/not working	12	24	
		Daily wagers/weekly wagers	5	10	
		Private office employees/monthly income earners	7	14	
		Government employees	20	40	
		Business/others	6	12	
6	Average Monthly Income	Home makers/students/pensioners	12	24	
		5000 - 15000	15	30	
		16000 – 35000	23	46	

Source: Primary

The personal frequency distributions such as age, sex, educational status, types of occupation, occupational status and average monthly income status of the respondents are presented in table -1. There are 50 samples collected for the present study, in which there are 56 per cent of the male and 44 per cent of female respondents. The survey has been conducted on the stratified random sample manner, as a result the age group of respondents concentrated only on above 20 years. The highest number of respondents belongs to 36 – 50 years and followed by 20 – 35 years. However, around 28 per cent of the people are from the age group of 51 – 65 years. The educational status of the respondent are classified as high school, higher secondary school and degree/diploma levels. 50 per cent of the respondents are with the educational qualification of degree/diploma levels, 32 per cent of them holding higher secondary education and rest of the people are with high school level.

The types of occupations are categorized as homemakers/students/senior citizen, unorganized, organized and own business people. The highest number of respondents i.e., 40 per cent of them is from the organized sector and 12 per cent of the people from own business class. The remaining per cent are equally shared by homemakers/students/senior citizen and unorganized sector. Out of 24 per cent of the people are working in the unorganized sector around 10 per cent of them are as daily/weekly wage earners and 14 per cent of them working in the private sector office as monthly income earners.

There are 46 per cent of the people being in the highest average monthly income group in which their income ranges from Rs.16000 – 35000. Around 30 per cent of the people are in the range of Rs. 5000 – Rs. 15000. The income range of the respondents from the study clearly indicates that the present demonetization policy has highly affected the lower and middle income group of the people in the society.

The impact of demonetization such as its degree of effectiveness, average number of hours spent by the people for withdrawing/exchanging the old currency, number of times of their visit to banks in a month period, approximate amount of money withdrawn by them per month and people opinion about the demonetization policy are described in table 2.

As the evidence have been observed in table -1, all the respondents belongs to lower and middle income groups, therefore 100 per cent of the respondents replied that they are either moderately (30 Per cent) or badly (70 per cent) affected for demonetization. As the data clearly indicates (in table 2) that around 92 per cent of the people who had spend on an average of 12. 5 hours out of 5 working days just to exchange/withdraw their own money from the banks. This is as per the labor law, 1.5 days of wage/salary loss of the employees per week. Hence 74 per cent of the people have visited banks less than 5 times per month and rest of them visited more than 5 times per month. In terms of amount of exchange of money, around 88 per cent of the respondents have withdrawn/exchanged less than Rs. 50000 per month. The rest of them have exchanged more than Rs. 50000 per month.

Table – 2: Impact of Demonetization

S. No	Particulars		F	%	Graphical Representation
1	Impact of Demonetization	Moderately Affected	15	30	
		Badly affected	35	70	
2	Avg. hours spent per week for currency exchange	< = 5 hours	4	8	
		< = 10 hours	30	60	
		< 15 hours	16	32	
3	No of times visited per month for exchange	< = 5 times	37	74	
		> 5 times	13	26	
4	Approximate amount of withdrawal per month	< = Rs. 50000	44	88	
		> Rs. 50000	6	12	
5	Responds about Demonetization	No idea/Poor Decision	8	16	
		No Need/Nothing will change	9	18	
		Its Ok/Good Move	7	14	
		Bold Decision/very much required	19	38	
		Something different/let us see the hope	7	14	

Source: Primary

The average amount of exchange of money of the respondents to some extent seems to be high, it is because of few of them have also withdraw the money for some family celebration and precautionary motives like marriage, medical treatment and funeral functions. One of the interesting respons also witnessed in table 2 is that around 64 per cent of the people have really appreciated the demonetization policy with the statement of good, bold and different decision which also very much required for the present situation as it was intended by the present government.

Table 3 presents the effect of implementations of demonetization and the suggestions for the defects of implementation of demonetization. Some of the indicators like the functions of ATM, plan of execution, effect of the market situations and expectations of the public to avoid the present panic situations are described in the table. Majority of the people (68 per cent) have replied that during the month of November and December almost 90 per cent of ATM machines were closed due to lack of fund availability. Even in some of ATMs fund were available but people happened to spent more time just to withdraw Rs. 2000 per day.

As it was also observed in table -2, around 84 per cent of the people have welcomed this demonetization as a good planning but poor execution. And only 16 per cent of the people replied as a poor planning and poor execution, this also might be of their frustrations and other difficulties. The market effect and effects on other regular activities of the respondents were also raised during survey, around 68 per cent of them have replied as they badly affected and remaining 32 per cent of them are moderately affected.

Some of the good opinions were also suggested by the public as an alternative for the better implementation of the demonetization policy or to avoid the present panic situations of the society. In which, 30 per cent of the respondents felt that the circulation of old Rs. 500 and Rs. 1000 currency could be reduced or stopped in 1st of November itself rather than declaring from 8th of November. There are 26 per cent of the people felt about the restriction of withdrawal of their own money. The frequent decision changes of the government were also made the public into a serious panic day after day. Around 16 per cent of the people are also suggested about the introduction of lower denominations rather than new Rs. 2000 at first and 6 per cent of the people reflected that at least the government could be avoided of changing size of the new currency which also technically taken longer time to reset the ATM operations for the technicians.

Table – 3: Effects of Implementation of Demonetization and Suggestions

S. No	Particulars		F	%	Graphical Representation
1	Opinion about ATM functions	No Money / No Service at all	34	68	
		Long queue/ spent more time for withdrawal	16	32	
2	Opinion about implementation of Demonetization	Poor planning / Poor Executions	8	16	
		good planning poor executions	42	84	
3	Opinion about the market	Moderately affected	16	32	
		Badly affected	34	68	
4	Suggestions for the implementation defects	Circulation of higher denomination must be stopped on 1st of the month itself	15	30	
		lower denomination must be introduced first than Rs. 2000	8	16	
		frequent decision changes should be avoided	11	22	
		the restriction of withdrawal must be avoided	13	26	

		technical defects should be avoided by changing the size of the currency	3	6	

Source: Primary

Table – 4: Value of Descriptive Statistics of the Sample

Particulars	N	Mean	Std. Deviation
Sex	50	.5600	.50143
Age	50	43.4200	11.93364
Education	50	4.3200	.76772
Type of occupation	50	1.4000	.98974
occupation	50	2.0800	1.42628
Avg. monthly income	50	15520.0000	11558.61725
Impact of DM	50	1.7000	.46291
avg. hours PW	50	9.6000	2.79942
No. of times PM	50	3.8600	1.22907
Total Money drawn PM	50	35500.0000	59497.98487
Opinion about ATM	50	.3200	.47121
Responds about DM	50	2.1600	1.33034
Opinion about Implementation of DM	50	.8400	.37033
Opinion about market situation	50	1.6800	.47121
Your suggestions	50	2.6200	1.32311
Price situation	50	.6800	.47121
Availability of the product	50	.8000	.98974
Demand side of the market	50	.9000	.30305
Employment side of the market	50	.3200	.47121
Reason for various reductions if any	50	1.9400	.73983
Effect on transaction purpose	50	1.1400	.35051
Effect on precautionary purpose	50	1.0600	.58589
Effect on speculative purpose	50	.7400	.80331

Source: Primary

The value of descriptive statistics of the sample is presented in table 4. The personal details, direct & indirect effects of demonetization, opinions and suggestions about demonetizations and the various effects of Keynesian demand for money motives such as sex, age, educational status, type of occupations, occupational status, ATM functions, price effect, market effect, employment effect, transaction motive, precaution motive and speculative motive's mean and standard deviations are assessed in this table. In variables like total amount of money withdrawn per month, opinion about the functions of ATMs, availability of the product in the market, status of the employment side of the market and effects on speculative motives' value of standard deviation is higher than its mean value. Whereas, the all other variables mean value is greater than its standard deviation. When, the variables' μ value is greater than its σ, which indicates a lesser degree of variability in the distribution of the sample variables.
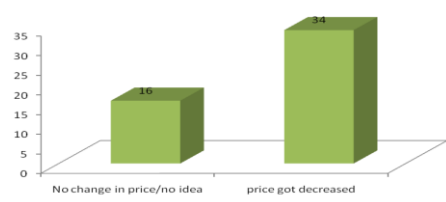
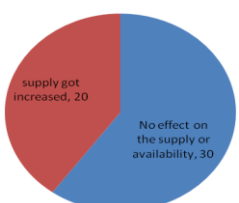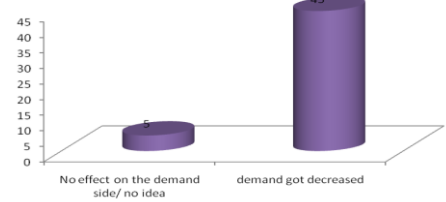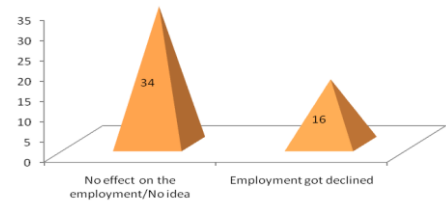## IV. KEYNES' DEMAND FOR MONEY AND IMPACT OF DEMONETIZATION

The Keynesian theory of the demand for money was first formulated by Keynes in his well-known book, 'The General Theory of Employment, Interest and Money (1936)'. It has been developed further by other economists of Keynesian persuasion. The peculiar characteristic of money as the only generally acceptable means of payment, and so it's perfect liquidity. More concretely, Keynes said that money was demanded due to three main motives:

(1) The transactions motive: The transactions motive gives rise to the transactions demand for money which refers to the demand for cash of the public for making current transactions of all kinds. This is inextricably bound with the use of money as the medium of exchange in a money-exchange economy.

Table – 5: Effects of Transaction Motive Events

S. No	Particulars		F	%	Graphical Representation
1	Effects felt on transaction motive	Moderately affected	7	14	

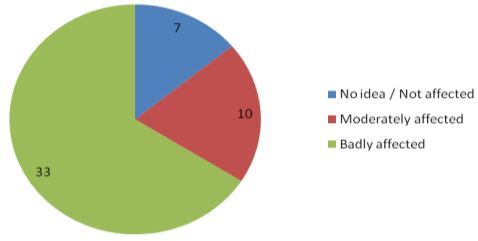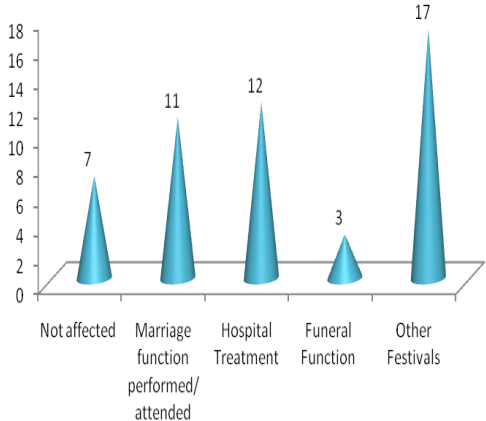|					
		Badly affected	43	86	
2	Price Changes	No change in price/no idea	16	32	
		price got decreased	34	68	
3	Availability of the product	No effect on the supply or availability	30	60	
		supply got increased	20	40	
4	Demand side of the market	No effect on the demand side/ no idea	5	10	
		demand got decreased	45	90	
5	Employment effect	No effect on the employment/No idea	34	68	
		Employment got declined	16	32	

The effects of transaction motive events described by Keynes as review in table 5. Invariably all the respondents have replied that either they moderately or badly affected on their day to day transaction activities due to demonetizations and its poor executions. The demonetization policy of the government of India has also evidenced that in terms of controlling the market mechanism like price of the product. There are 68 per cent of the people have evidenced that price of the product reduced after demonetization. The reduction in price due to increase in supply was agreed only by 40 per cent of the people. Whereas, the rest of the people have stated that there was no change in supply or no idea about the supply side of the market. Which means the reduction of the price control of the product in the market mechanism is not because of the effective role of the supply side. The intensive reduction of lower denominations, constraints of exchange of old higher denominations have played a vital role to reduce artificial reduction in the market demand as a result for a short while the existing supply of the market product seems to be higher the market demand which ultimately controlled the inflationary situation in the economy. The demonetization of the policy to some extent has also affected the employment of the factor market due to unable to make payment on time and people force to spend some to exchange their existing old denominations in the banks.

(2)   The precautionary motive: The precautionary motive induces the public to hold money to provide for contingencies requiring sudden expenditure and for unforeseen opportunities of advantageous purchase. This motive (demand) is a product of uncertainties of all kinds.

Precautionary motive is the second important purpose of the people to demand money. The present demonetization has also affected the public significantly. The result of the impact on precautionary motive events of the respondents is presented in table 6. Out of 50 respondents around 43 of them have replied that they have been moderately (20 per cent) and badly (66 per cent) affected for the demonetization. The type of precautionary motive of the respondents is also listed out as indicated in table 6. Normally, end of the year is mostly a festival season in Indian culture, around 34 per cent of the people responded as their festivals are

highly disturbed in the demonetization. Around 24 per cent of the people had the hard time to exchange/withdraw their money for medical treatment.
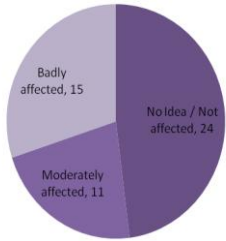
Table – 6: Effects of Precautionary Motive Events

S. No	Particulars		F	%	Graphical Representation
1	Effect felt on precautionary motive	No idea / Not affected	7	14	
		Moderately affected	10	20	
		Badly affected	33	66	
2	Type of Precautionary	Not affected	7	14	
		Marriage function performed/ attended	11	22	
		Hospital Treatment	12	24	
		Funeral Function	3	6	
		Other Festivals	17	34	

Source: Primary

(3)   The speculative motive: The speculative motive giving rise to the speculative demand for money is the most important contribution Keynes made to the theory of the demand for money. It explains why the public may hold surplus cash (over and above that demanded due to the other two motives) in the face of interest-earning bonds (and other financial assets). The reason is that the holders of such speculative balances may anticipate such fall in future prices as will make the loss of foregone interest earnings look relatively smaller. The speculative demand for money is sometimes also called the asset demand for money—not a happy term, because, money being an asset, the entire demand for it is an asset demand.

Table 7 represents the effect of demonetization on speculative purpose of the Keynesians' demand for money. As the evidence have produced in the early tables that most the people belongs to poor and middle income groups, as a result their involvement in the speculative purpose as mentioned by Keynes in the stock/financial market activities are being at very low level. However, some of the middle income grouped people who normally involved in the stock market activities have felt that they affected moderately and badly as mentioned in table.

Table – 7: Effects of Speculative Motive Event

Particulars		F	%	Graphical Representation
Effects on Speculative motives	No Idea / Not affected	24	48	
	Moderately affected	11	22	
	Badly affected	15	30	

Source: Primary

V.   LIMITATIONS

The present study is also includes some of the drawbacks. They are:

1. Since, the size of the sample data is very minimal therefore the effectiveness of the interpretation the sample might be doubtful with mass analysis.
2. Demonetization of the policy has been review only in terms of Keynesians' demand for money, where as demonetization was focused by the government of India for other reasons are not focused in the study.
3. The period of data collection refers very short period, whereas normally the policy implications might started giving benefit in the long run.

VI.   CONCLUSION

As per the opinion of many of the experts and economists about the present demonetization of India might have caused to collapse or create unpleasant transactions in the market economy, but to some extent, the present study witnessed the achievement of controlling the market inflation then before. Although inflation has been reduced, this has been achieved by squeezing money out of the system, resulting in continuing economic collapse and the chronic non-payment of remuneration to the workers. All the time, where economic systems are not free to convert all of their commodities into money form, they cannot participate in a competitive market economy. As a result, ultimately all economic relations then fall under the control of monopoly structures. The world economic history has also had a lot more evidences for that the demonetisation, criminalisation and monopolisation of the economy, led to the deepest and longest economic depression. It has been a direct result of the government's monetary and financial policies, dictated by the international financial institutions, which has severely restricted the supply of money and given monopoly powers to financial institutions.

REFERENCE

[1].   http://www.hindustantimes.com/india-news/rs-53-000-crore-received-in-deposits-after-demonetisation-move-sbi/story-VVhqIw0tz6kag77t1F0anK.html
[2].   http://indianexpress.com/article/india/india-news-india/the-un-real-estate-demonetisation- process-100-500-rupee-note-narendra-modi-black-money-4372286/
[3].   http://www.newindianexpress.com/nation/2016/nov/08/fake-currencies-black-money-and-terrorism-modis-ban-on-rs-500-rs-1000-can-stop-them-all-1536461.html
[4].   http://www.thebetterindia.com/74549/delhi-cab-driver-helps-passenger-with-500-notes/
[5].   http://www.newindianexpress.com/nation/2016/nov/13/modi-warns-of-further-action-against-black-money-1537929--1.html
[6].   http://www.newindianexpress.com/business/2016/nov/10/deposits-over-rs-25-lakh-to-attract-penalty-on-mismatch-govt-1537017.html
[7].   https://en.wikipedia.org/wiki/Indian_black_money
[8].   www.financialexpress.com › India news
[9].   indiatoday.intoday.in › PTI feed
[10]. https://www.researchgate.net/.../A-STUDY-ON-DEMONETIZATION-OF-CURRENCI...