

A Study on Impact of Demonetization on Increased Use of Plastic Money - with Special Reference to Coimbatore District

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Abstract

Demonetization we mean the act of taking away the authorization of paper and coin money as "Legal Tender." It means that old currencies including notes and coins must be restored with new ones or completely new currency can be introduced like Rs. 2000 note which was not available earlier. This was a gigantic and precise decision taken as some opportunely said it is a "Masterstroke" or a "Surgical Attack" on black money. As a result, plenty of citizens in the country has shifted from hard cash to plastic money (Debit/credit cards). There has been an acceleration in the use of credit and debit cards succeeding the demonetization initiative. There is a huge future for the use of plastic money in India. Distinct from providing strengthened convenience to the customers, plastic money can also ensure transaction secrecy and integrity to the customers. There have been issues of concern with circumstances such as the duplication of credit cards, robbery of ATM cards. For the growth of plastic cards in the Indian market more improved customer service security should be provided by plastic card issuers. This study mainly concentrates on the impact of demonetization on increased use of the plastic money during the pre and post demonetization period. The sample selected consisted of consumers including students, working professionals, government officials, home makers and senior citizens.

Key Words: Demonetization, Currency, Plastic Money, Debit Card

Introduction

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 the new currency. On 8 November 2016, the Government of India announced the demonetization of all 500 and 1000 banknotes of the Series. The government claimed that the action would curtail the shadow economy and crack down on the use of illicit and counterfeit cash to fund illegal activity and terrorism. The sudden nature of the announcement and the prolonged cash shortages in the weeks that followed created significant disruption throughout the economy, threatening economic output

Advantages of Demonetization: Demonetization was introduced as a policy because it was thought to have numerous advantages. Below are some of the key advantages that are often associated with demonetization.

Getting fake currency out of circulation: Demonetization can also be used to get fake currency out of circulation in a country's economy since such currencies cannot be deposited in banks and other financial institutions.

Controlling inflation: Demonetization is usually cited as having one key advantage: this is that it can control inflation. Taking certain notes out of circulation can help the government to control public spending.

Tax Collection: Money deposited in the bank during demonetization can be taxed especially if the affected parties were trying to evade taxation by keeping the hard cash.

The move to digital currency: Some commentators argue that in the future, we will all be using digital currency, such as bitcoins. If this is true, then one advantage of demonetization is that it will help to propel us into the future.

Improved deposits and savings in financial institutions: Parallel economies make it difficult for banks and other financial institutions to raise deposits. Demonetization reduces the size of the parallel economy and boosts savings and deposits.

Stopping fraudsters: When new currency is introduced, this can also be a great opportunity to halt the activities of fraudsters who had been making money illegally by counterfeiting coins and notes.

Reducing illegal activities: Money used to fund illegal activities such as terrorism and drug trafficking will be rendered useless. Hence, the government can use demonetization policy to trace money that has been made from illegal activities such as drug trafficking and theft since such individuals are faced with only two options: either deposit the money with the bank or be left with the currency that has no value.

Growth in a country's GDP: Due to low lending rates, improved revenue collection, and growth in savings and deposits, a country that has demonetized is likely to see an improvement in the growth of its GDP.

Introducing new bank note designs: Demonetization is also a good opportunity to redesign bank notes. This might involve making them more durable, for example. Several countries have switched from paper notes (which tore or got worn very quickly) to more durable plastic notes, which has made their monetary system more secure in several ways.

A measure of good governance practices: Some experts claim that demonetization policies improve the ease of doing business and are also a measure of good governance.

Good income management habits: People will opt to invest their money in properties such as real estate or deposit cash in banks to safeguard against some negative effects of demonetization.

Reduction of lending rates: Availability of cheap deposits in financial institutions means that people can borrow money at low-interest rates.

Disadvantages of Demonetization

Demonetization is not all beneficial, and even proponents of demonetization acknowledge that it does have its disadvantages. A few of them are outlined below.

Little cash in circulation: Cash crunch is a major disadvantage of demonetization due to the unavailability of small currency denominations, an issue which makes it difficult to make small purchases.

Inconvenience and annoyance to the public: Sometimes, demonetization can be very inconvenient. For example, sometimes the government will remove certain denominations of bank notes from circulation but keep others. It can be annoying when smaller coins are removed from circulation, and you do not have enough change. Further, queuing up in banks to deposit money or exchange currency can be inconveniencing.

A slowdown in Economic Growth: Economic growth will experience a period of lull due to business disruptions, at least in the short term.

Panic: Not everyone understands the essence of demonetization and, therefore, such an exercise is likely to result in panic in a section of the population.

An avenue for fraud and corruption: Some people are likely to take advantage of lapses in the financial system to engage in fraud and corruption when exchanging currencies.

Disruption of Trade: The normal trading activities may be disrupted by this process since it takes time for consumers and suppliers to adjust to the new monetary policy.

Loss of tradition: People can feel attached to their old bank notes and coins as they can feel that they constituted part of their tradition.

Problems with paying bills: If someone has sent some bank notes in the post to pay a bill, or if there is any substantial delay in processing a bill payment, and demonetization hits in the mean time, the money set aside to pay the bill can become invalid. This is more common that you might think in highly bureaucratic systems.

ATMs have to be re-calibrated: ATM machines have to be re-calibrated to accommodate the new currencies. It will result in additional costs for banks and also inconvenience customers.

Short-term financial crisis for poor people: If people adopt a new currency and this currency is not a successful one, then it can cause a financial crisis for everyone who is involved. Even a small change in the value of everyday items or even a small amount of confusion about whether a currency is valid can mean a lot of hardship. As such, demonetization can increase and exacerbate inequalities within society, at-least in the short term.

Confusing: Demonetization can be confusing and annoying – especially for people who are not able to get rid of their old notes in time.

Financial Services constitute one of the world's fastest growing industries and the pivot of the modern economy. It largely depends on the quality and variety of services rendered by financial intermediaries such as banking and non-banking institutions. Banking Regulation Act in India, 1949 defines banking as "Accepting" for lending or investment of deposits of money from the public, repayable on demand and withdrawals by cheques, drafts, orders, etc. Plastic money or polymer money, made out of plastic, is a new and easier way of paying for goods and services. Plastic money was introduced in the 1950s and is now an essential form of ready money which reduces the risk of handling a huge amount of cash. There are mainly four types of Plastic Money which is classified as the Credit card, Debit card, Store Card and Smart Card. A smart card is a new and emerging concept in Plastic money which is widely accepted in the developed country.

Advantages and Disadvantages of Plastic Money

Advantages of Plastic Money Plastic Money is a must need of our busy life. Today it is very easy to carry money without having a lot of cash or gold. Keep Credit or Debit cards and forget the cash. This is a new idea of present life-style which has made money transition so easy that anybody can carry it with him or her in a pocket. Today plastic money is the best alternative of the cash.

Purchasing Power: Credit or Debit cards made it easier to purchase things. Now, the purchaser doesn't have any need to carry hard cash in a large amount. Plastic money is accepted everywhere, anytime.

Time-Saving: Through a credit card or debit card you can purchase anything from anywhere without spending money on fare or cash transition. Just provide card details to seller store or companies and finalize the order. Now, the purchaser doesn't need to worry about time wastes. Use the internet for minimum time-consuming.

Extra Safety: While the person is not carrying cash, how can it be lost? But if a card has lost, just contact a bank or financial institution, which provide cards. It will block the account, and nobody can draw a single coin without permission of cardholder. So it is 100% safe without any tension.

Credit Limits: Cardholder get an extra amount to spend with his/her card. This extra spent money can return before a fixed schedule or will have to pay a little interest. So there is no problem with having less money. Just use money without any tension.

Disadvantages of Plastic Money: We can't ignore the necessity of plastic money in our life. This is the one among most important needs of our life. Plastic money or credit/debit card was a new idea in its starting, but it was welcomed by the people because of its usability and benefits. There is no doubt that credit/debit cards are useful and essential for us, but they have some disadvantages as their uses. To be habitual cards may be harmful. Here there are some disadvantages of plastic money.

Over Budget: Plastic money gives an easy and extended purchasing capacity which results in an extra and unwanted buying. These cards give discounts and bonus also on particular stores or items, which encourage getting them and cardholder, use their hard earned money for a non-required thing,

which affects their budget and they can't handle monthly budget system.

Increased Debt Aand High-Interest Rates: Credit Card provider financial institutions and companies charge high--interest rates (may be 10% to 25%) on extra money if you fail to pay off up to the fixed date of the month. This interest is their earning, for which they give extra buying limits then the cardholder's money. This is not a good idea that owes loan on high-interest rates and spends it on unnecessary things or purchasing. This is complete money wastages.

Fraud: Credit cards can be stolen. A thief may use them directly or get their information (which is required in money exchange). In today's technical intelligence it is also possible to get a clone of any credit card or debit card, which works like original and they can give you a heavy financial loss. So be aware of credit cards fraud as they are like stolen your money from your pocket without your information.

Review of Literature

Johnson (2005) focuses on the "Recent development in credit card market and the financial commitment ratio." The article disagree that over the period of time there is rise in plastic money payments relative to income and played an imperative role in the increase of the total financial obligation ratio(FOR)The three crucial developments in the plastic money market are, first, improvements in credit add technology and the advent of risk-based pricing of plastic money debt has raised the share of house-holds. Secondly, in the 1990's, the difference in credit card interest amount with the advance in broader market interest rates. Finally, the household has raised their use of plastic money as an appropriate means of paying for frequent purchases.

Factors Affecting the Probability of Credit Card Default and the Intention of Card Use in Turkey, Cumhuriyet, International Research Journal of Finance and Economics (2008). Since socioeconomic consequences of credit card debt have become one of the most common problems in Turkey, the problem has received the widespread attention of media, public policy makers, card issuers, and holders and consumer protection agencies. This paper investigates the factors that have the impact on an intention of credit card use and a probability of

default by using data obtained from 474 card users in Turkey. Ordered probit and the structural equation models were used to meet the objectives. According to the findings, the factors that affect the probability of credit card user default are total credit card debt to income ratio and the proportional payment of expenses with credit cards. The number of children, level of education, subjective norm, perceived behavioral control and attitude toward the behavior were found to be effective in the formation of the behavioral intention.

Al-Alawi and Al-Amer (2006), "Young Generation Attitudes and Awareness Towards the implementation of Smart Card in Bahrain: an exploratory study. The study puts a light on latest advancement and innovations in the world of information and communication technology by way of a smart card. A smart card resembles in size and shape to a normal credit card or bank ATM card, with a microprocessor chip implanted into a card. These cards are used not just as identity cards, but hold a relatively huge amount of editable information including the cardholder's bank data, e-purse, finger print, health record, blood group, traffic and license details and other vital information. The study present s a general overview history, features application and introduction of smartcards in the kingdom of Bahrain. A total of 513 questionnaires were distributed to the students of the University of Bahrain. The questions asked included question to check the acceptance of the people to replace their current cards with a smart card and their awareness of the new National Smartcards in Bahrain. It also evaluates the effects taken by the government to create awareness among the public about the usage and features of the smart cards.

Mandeep Kaur (2011) perception of cardholders and member establishments towards plastic money in India is a study that examines the perspective of users, as well as member establishments, has towards the use of plastic money. It focuses on some vital aspects like challenges experienced by customers and bankers, value attribution to plastic-money adaptation and some factors attracting them to adopt and use plastic money. It also analyses the current status and trends of plastic money in India.

Loewenstein and Hafalirin(2012)conducted a study on “The Impact of Credit Cards on Spending.” The study focused on two types of customers, revolvers (who carry debt) and convenience users (who do not carry debt), and measured the impact of payment with the credit card as compared with cash by an insurance company employees spending on lunch in a cafeteria. It was found that there was the change in the diner’s payment medium from cash to a credit card when an incentive to pay with a credit card was given. It was then found out that credit cards do not increase spending. However, impact on spending for revolvers and convenience users. Revolvers spend less when induced to spend with a credit card, whereas convenience users display the opposite pattern.

P Manivannan (2013) in his research paper “Plastic Money as a way for cash Less Payment System” examined that Plastic Money, i.e., usage of a Credit card was measured a luxury, and has become needed. These plastic money and electronic payments were and used by only higher income group. This facility extended not only to customers in urban areas or cities, but also to customers residing in the rural area. However, today, with the development of banking and trading activity, the fixed income group or salaried classes are also starting using the plastic money and electronic payment systems and particularly Credit cards

Statement of Problem

Plastic money also has become a part of the modern life style of people today. All these highlights the scope and potential for plastic money as a payment instrument in India. The growing recognition of plastic money increases the usage and acceptance of it in the business deals all over the world. The success of card usage depends upon the cardholders awareness about the features and benefits of cards, various problems/risks connected with the card, their satisfaction level and decision to choose the cards in place of cash, promotional measures adopted by banking authorities and above all the extent to which merchants are ready to accept it as a medium of payment in the business dealings.

The present study is made to analyze the impact of demonetization on increased usage on Plastic Money concerning Coimbatore district.

Objectives of the Study

1. To examine the consumer preference for using plastic money rather than liquid cash in comparison of the pre and post demonetization.
2. To study the extent of non-acceptance of plastic money by small and medium-sized retailers.
3. To analyze the risk associated with plastic money.
4. To study the extent of reduction in corruption by the introduction of plastic money

Limitations of the Study

The main limitations are:-

1. This study is limited only to Coimbatore District
2. Getting the information from the investors is not an easy job as they find no time to spare with, and also they felt reluctant

Research Design and Methodology

The study is a descriptive one mainly based on primary data. The descriptive research explains the state of affairs as it exists in the present.

Sources of Data

Primary Data

The primary data have been collected by using structured questionnaire from 50 selected respondents of Coimbatore district.

Secondary Data

Secondary data relating to the study have been collected from the websites, books, journals, and periodicals.

Tools for Data Analysis

The data collected has been analyzed using SPSS. The statistical tools such as percentage and mean have been used for data analysis.

Empirical Results and Discussions

Table 1: Age Wise Classification

	Frequency	Percent	Valid Percent	Cumulative Percent
18-25	28	54.9	56.0	56.0
25-35	16	31.4	32.0	88.0
Valid 35-50	5	9.8	10.0	98.0
Above 50	1	2.0	2.0	100.0
Total	50	98.0	100.0	
Missing System	1	2.0		
Total	51	100.0		

[Source: Primary Data]

Interpretation

Table 1 describes the age group of the respondents. From the table, it is clearly understood that the maximum number of people surveyed represent to the age group of 18-25 constituting 56 %. The members representing the age group of 25-35 constitutes 32%

of the total population. The members representing the age group of 35-50 constitutes 10% of the total population. The members representing to the age group of above 50 constitutes the least amounting to 2% of the total population.

Table 2: Annual Income of Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
0-180000	27	52.9	54.0	54.0
180000-300000	7	13.7	14.0	68.0
Valid 300000-500000	12	23.5	24.0	92.0
500000 and above	4	7.8	8.0	100.0
Total	50	98.0	100.0	
Missing System	1	2.0		
Total	51	100.0		

[Source: Primary Data]

Interpretation

Table 2 depicts the income group under which the respondents' falls. It indicates that the maximum number of respondents fall under the category of 0-180000 constituting to about 54%. The respondents

belonging to the category of 180000-300000 constitutes 14%. The respondents belonging to the category of 300000-500000 constitutes 24%, and respondents belong to the category of above 500000 constitute only 8% of the total population.

Table 3: Is Plastic Money Safe

Options	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	33	64.7	66.0	66.0
Valid No	17	33.3	34.0	100.0
Total	50	98.0	100.0	
Missing System	1	2.0		
Total	51	100.0		

Interpretation

Table 3 depicts respondents' responses of "is plastic money safe." It is observed from the table that the maximum number of respondents is of the opinion that plastic money is the safest mode of the

transaction constituting 66% of the total population. The remaining 34% of the total population is of the opinion that plastic money is not the safest mode of transaction .

Table 4: Reasons For Not Preferring Plastic Money

Options	Frequency	%	Valid Percent	Cumulative Percent
Instable income	2	3.9	5.9	5.9
Lack of knowledge	1	2.0	2.9	8.8
Malpractice by outlet owners	5	9.8	14.7	23.5
Valid Malpractice by bankers	1	2.0	2.9	26.5
Lack of trust misuse by others	10	19.6	29.4	55.9
Due to the hidden charges	15	29.4	44.1	100.0
Total	34	66.7	100.0	
Missing System	17	33.3		
Total	51	100.0		
[Source: Primary Data]				

Interpretation

Table 4 depicts the reason for not preferring plastic money. The maximum number of respondents in this category does not prefer plastic money due to its hidden charges constituting 44% of the total population. The reasons least preferred are the lack

of knowledge and malpractice by bankers each constituting 2.9% each. The other reasons instable income, malpractice by outlet owners, lack of trust misuse by others constitute 5.9%, 14.7%, 29.4% respectively

Table 5: Payments Preferred before Demonetization

Options	Frequency	Percent	Valid Percent	Cumulative Percent
Cash	9	17.6	18.0	18.0
Valid	Card	8	15.7	34.0
	Both	33	64.7	100.0
Total	50	98.0	100.0	
Missing System	1	2.0		
Total	51	100.0		

Interpretation

Table 5 depicts the payment preferred by the respondents before demonetization. Before demonetization, a large no. of respondents preferred

payments via both cash and card. About 66% of the total population preferred payments via both cash and card before demonetization and 18% preferred payments via cash and the rest 16% via card.

Table 6: Small and Medium Size Retailers Prefer Plastic Money for Transactions

Options	Frequency	Percent	Valid Percent	Cumulative	Percent
Valid	Yes	34	66.7	68.0	
	No	16	31.4	100.0	

	Total	50	98.0	100.0		
Missing	System	1	2.0			
Total		51	100.0			
[Source: Primary Data]						

Interpretation

Table 6 depicts the preference of small and medium-sized retailers towards plastic money for transactions. It is observed that the maximum number of respondents are of the opinion that small

and medium-sized retailers prefer plastic money for their transactions amounting to 68% of the total population. It is also observed that 32% of the total population are of the opinion that small and medium-size retailers do not prefer plastic money.

Table 7: Black Money Circulation be Crabbed by Introduction of Debit or Credit Card Transactions

Options		Frequency	Percent	Valid Percent	Cumulative Percent
	Yes	33	64.7	66.0	66.0
Valid	No	17	33.3	34.0	100.0
	Total	50	98.0	100.0	
Missing	System	1	2.0		
Total		51	100.0		
[Source: Primary Data]					

Interpretation

Table 7 depicts whether the black money circulation in the economy is crabbed with the introduction of debit or credit cards. Majority of the population are of the opinion that black money circulation would be crabbed with the introduction of plastic money amounting to 66% of the total population. The remaining 34% are of the opinion that the black money circulation would not be crabbed.

Findings

The efforts of demonetization being led by PM Modi in India are appreciable to an extent but follow both positive as well as negative aspects. The main aim is to eradicate the stock of “black money” out of the economy and bring it into the banked and taxable part of the economy. The result of the study revealed the following:

The maximum number of respondents chosen for studying the impact belonged to the age group of 18-25 constituting about 56% of the total population.

Most of the respondents possess the category of student as their professional status constituting about 52% of the total population.

Majority of the respondents get an annual income of 0-180000

Best parts of the respondents are of the opinion that plastic money is the safest mode of the transaction was constituting about 66% of the total population.

One of the main reasons for not opting for plastic money by the respondents is that plastic money involves hidden charges constituting 44% of the total citizenry.

Most of the respondents preferred PIN as the security for their plastic money constituting 38% of the total population.

There has been a valid hike in the of use of bank card after the demonetization.

Conclusion

Demonetization is the act of stripping a currency unit of its status as legal tender. The study examined the impact of demonetization on increased use of plastic money. 50 respondents were selected for the study. The Demographic profile of the respondents are examined using the variables like gender, profession, annual income, age group they belong to, number of members in the family, awareness of plastic money,

consumer preference of plastic money in the pre and post demonetization era, extent of non-acceptance of plastic money among the small and medium-sized retailers, the extent of risk associated with plastic money, extent of wasteful expenditure using plastic money by consumers, extent of reduction in corruption with the introduction of plastic money. With demonetization basically, many of the digital payment clarification

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