



A STUDENTS' JOURNAL OF SHRI RAM COLLEGE OF COMMERCE



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To be or Not to be?
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STRIDES

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Dr. R.P. Rustagi

EDITOR

Dr. Santosh Kumari
Ph.D., M.Phil., M.Com., M.A. Educational Leadership and Management
(University of Nottingham, England, United Kingdom)

Assistant Professor
Department of Commerce
Shri Ram College of Commerce
University of Delhi
Delhi-110007
India

e-mail: strides@srcc.du.ac.in

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All correspondence relating to publication of the journal should be addressed to :

The Principal
Shri Ram College of Commerce
University of Delhi, Maurice Nagar
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Principal's Message

The mission statement of the College, signifying the existence and its road map to the achievement of its vision, reads as:

“To achieve and sustain excellence in teaching and research, and enriching local, national and international communities through our research, the skills of alumni, and the publishing of academic and educational materials”

To achieve and promote excellence in publications and applied research, the College has taken the initiative to launch a new journal exclusively to publish students' research papers and articles. It will be an add-on to the enriched catalogue of College publications and academic literature.

The journal has provided an opportunity to the students of our college to focus on research at the undergraduate level. Since the students were not opened to the research methodologies at the undergraduate level, they were mentored by *experienced senior faculties* of our College. Simultaneously, their articles were also reviewed by the referees and tested for plagiarism before publication. After reporting all the suggestions recommended by the referees, the articles were revised and then finally published. The College is successfully releasing the foundation issue of the journal i.e. *STRIDES – A Students' Journal of Shri Ram College of*



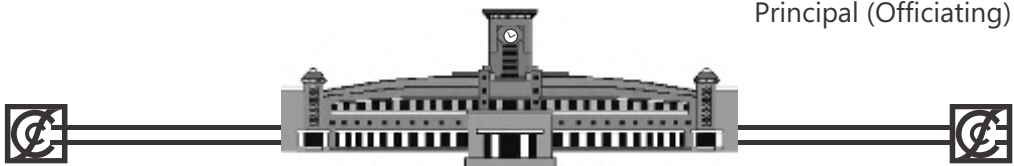
Commerce, Volume 1, Issue 1, 2016-17 on the occasion of 91st Annual Day of College held on 13th April 2017. The Journal is released by Shri Prakash Javadekar, Honb'le Minister of Human Resource Development, Government of India.

The college has already applied for *International Standard Serial Number (ISSN)* for the Journal. The application for ISSN is still under process.

I would like to congratulate the students whose papers are published in the foundation issue of the journal and simultaneously, encourage all the students to contribute their research papers and articles for the successive issues of the Journal.

Best wishes for their future endeavor.

Dr. R.P. Rustagi
Principal (Officiating)



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Editor's Message

Shri Ram College of Commerce is well known for its academic excellence and dedicated approach towards dissemination of knowledge in the academic world. The College appreciates the role of research in education and is committed to developing an inclination towards research in both faculty and students. In this pursuit, the College has taken the initiative to launch a new Journal named 'STRIDES – A Students' Journal of Shri Ram College of Commerce' to encourage students to pursue research under the guidance of the faculty of Shri Ram College of Commerce.

It is an annual journal launched exclusively to publish academic research papers and articles by students on contemporary topics and issues in the area of commerce, economics, management, governance, policies etc.

In order to maintain high standards of publication, a Committee on Publication Ethics (COPE) has been constituted. The COPE shall be the apex authority to take all decisions related to publication of research papers and articles in STRIDES. The decision of the COPE shall be final and binding.

To maintain the *academic standards*, *academic ethics* and *academic integrity*, a rigorous process of blind review of

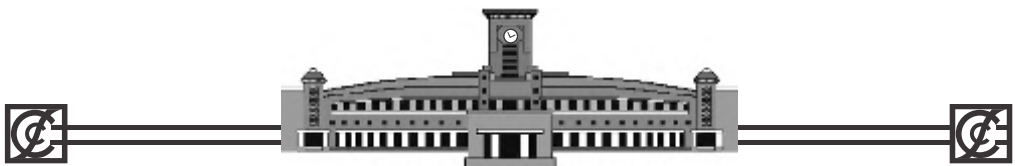


articles is followed after screening for plagiarism of each manuscript received by the college for publication. The research work published in STRIDES is original and not published or presented at any other public forum.

The foundation issue of the Journal i.e. *STRIDES – A Students' Journal of Shri Ram College of Commerce, Volume 1, Issue 1, 2016-17* is successfully released on 91st Annual Day held on 13th April 2017 by Shri Prakash Javadekar, Hon'ble Minister of Human Resource Development, Government of India.

Successive issues of STRIDES will be released every year on the occasion of College Annual Day.

Dr. Santosh Kumari
Editor



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Arshnoor
B.Com.(Hons.)-Ind Year
Shri Ram College of Commerce
University of Delhi

Aftermath of Demonetization in India

The paper looks at the post-demonetization effect in India from an analytical perspective. Hailed as a "radical step" in the annals of the country's economic and monetary history, demonetization is believed to have changed the future economic path of the country. In this paper, certain key economic indicators are identified and the ex-post effect of demonetization on such variables is examined. The analytical study reveals that the stated objectives like eradicating black money and counterfeit currency have been poorly targeted. Moreover, the informal sector has paid a heavy price for the radical experiment, whose effects have been aggravated by procedural and structural lags in its implementation.

INTRODUCTION

Demonetization is defined as the act of stripping a currency unit of its status as legal tender backed by the government of a country. The act of demonetization is necessary whenever there is a change of national currency. (Investopedia, 2016)

In India, demonetization first took place in **1946**, when the pre-independence British Government promulgated an ordinance to phase out the then high-denomination currency. However, the high-denomination bank notes of Rs.1000, Rs.5000, and Rs.10000 were reintroduced in **1954**, only to be demonetised in 1978 again. The current

Mentor

Mr. S.K.Bohidar
Associate Professor
Department of Commerce
Shri Ram College of Commerce

demonetization announced on 8 November 2016 is therefore the third in row of its kind that focussed on the withdrawal of the legal tender status of Rs.500 and Rs.1000 with the stated objective of curbing the proliferation of fake currencies and wiping out unaccounted and tax-evaded money stored in such high-value. From an economic perspective, it is important to note that the denomination-wise distribution of the currency held by the public largely determines the impact of demonetization. In this regard, Rajakumar (2016) notes that while in 1978 the per capita income was 1.49 times of the value of the lowest denomination note that was denotified, the corresponding ratio for 2016 is 186.5. As such, the demonetization of 2016 is being studied as a 'historically unprecedented monetary shock' that is said to have affected critical economic indicators.

REVIEW OF LITERATURE

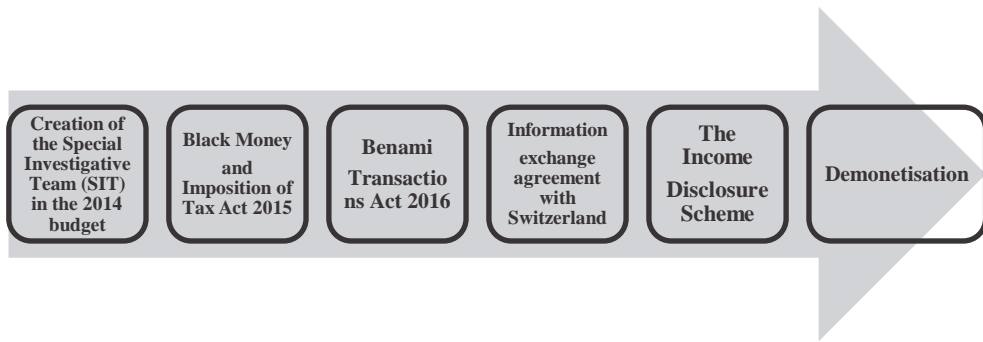
Sutherland (2000) summarises the main arguments of Chapter 2 of the OECD Economic Survey of the Russian Federation 1999-2000, links demonetization to problems in the fiscal system, bankruptcy, and corporate governance and agrees that combating demonetization will require a comprehensive set of policy measures. Similarly, **Dasgupta (2016)** has used the IS-LM macroeconomic model and carried out a theoretical analysis of demonetization with the help of mathematical and econometric techniques, and has come to a conclusion that none of the important economic variables are likely to move in a healthy direction. Quite apart from the rich techniques he presents in support of his arguments, it must be noted that the tools of analysis employed are not relevant for the long run. Interestingly further, **Rao (2016)**, in her research with National Institute of Public Finance and Policy, New Delhi argued that the cash that would be extinguished would be "black money" and bases the argument on impressions rather than facts. **Kohli (2016)** has already presented an analysis of the demonetization exercise by an analytical study of various reports and past statistics, and argued that the extent of circulation of counterfeit notes in the Indian economy is exaggerated; the claims of unearthing large amounts of black money is unfounded and based on a poorly informed view of what constitutes black money; no improvement in government finances may be expected due to demonetization; it is unlikely that interest rates in the economy may fall as a consequence of demonetization; and the movement into a less-cash economy may neither lead to the shrinkage of the shadow economy nor reduce corruption, and, instead, may open up new spaces of surveillance and assaults on the personal freedoms of citizens.

DEMONETIZATION IN INDIA: THE AFTERMATH

The two largest denomination notes of Rs. 500 and Rs. 1000 ceased to be the legal tender in India, thereby, rendering 86 percent of the cash invalid. Also termed as '**reverse helicopter drop policy**' or '**helicopter hoover**', the act gave a whole new expression to unconventional monetary policy. (Economic Survey 2016-17)

The step was however a part of a series of earlier efforts to sabotage the war against counterfeit currency, black money and corruption. They have been listed below:

Figure 1. Pre-Demonetization efforts to curb black money and corruption



Broadly, the effect of demonetization has been sketched out schematically below:

Table 1: Effects of Demonetization on select economic indicators

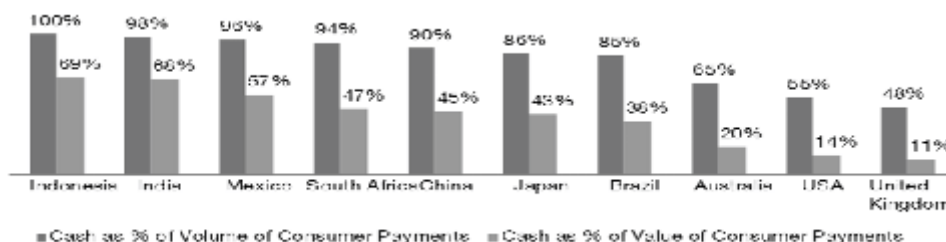
Economic Indicators/Sectors	Effects
Gross Domestic Product	A reduction in demand (especially in cash-intensive sectors) and supply (reduced liquidity, working capital) along with growing uncertainties will cause an adverse impact on GDP in the short-run.
Tax collection	While the income taxes rose because of increased disclosure, the growth in excise and service tax collections has moderated, in a reflection of the slowing economic activity.
Agriculture	Agriculture, being a cash-intensive sector, has faced disruptions, breaks in supply chains, increased wastage and lower revenues. Moreover, the formal financing in this sector is significantly from cooperative

	banks, which have been barred from exchange-deposit of demonetized currency.
Tax evasions	Demonetization affects the stock of unaccounted and tax-evaded cash, but not necessarily any flow or generation process of such cash.
Uncertainty	Uncertainty increased, as firms and households were sceptical about the economic impact and implications for future policy.
Real Estate and Property	While the Real Estate Regulatory Act and Benami Properties Act would improve transparency, it is too early to say that 'demonetization' has eliminated black money from a sector that has the reputation of being a 'safe haven' for black money.

Banking Sector: While some claim that the sudden surge in bank deposits is impressive and will spur investment, it must be noted that this demand for bank deposits is artificially induced, which means that the economy is not witnessing a new equilibrium. Therefore, if the withdrawal limits are further raised/ removed, the rush back to cash can be a possibility, leading to lower liquidity in the system, thereby causing an increase in the interest rates and cost of investments. Probably this is the reason why government campaigns are emphasising digital payments, so that the banks remain flushed with liquidity.

Digitalisation in wake of demonetization: As the process continued, the whole exercise started revolving around 'cashless economy' and the earlier rhetoric of 'black income' started fading. It cannot be denied that digitalisation can create tremendous impetus for financial inclusion in the long run. Moreover, a recent report (Visa, 2016) states that for a total investment of about INR 60000 crores over 5 years towards creating a digital payments ecosystem, India could reduce its cost from the present levels of 1.7% to 1.3% of GDP. However to reap these benefits, the serious impediments such as financial illiteracy, faltering rural connectivity, higher concentration of ATMs and PoS terminals in large towns and infrastructural issues ought to be taken into account.

Figure 2: The Persistence of Cash in Consumer Transactions



Source:(PricewaterhouseCoopers 2016)

Analysing the impact of demonetization on '**black money and corruption**' is of paramount importance. Wanchoo (1971) depicted the phenomenon (of black economy) as "cancerous growth in the country's economy which, if not checked in time, will surely lead to its ruination".

As illustrated by 'White Paper on Black Money '(2012), tackling **black money**² requires an amalgam of conscientious efforts- rigorous investigation into local and foreign holdings of assets, appropriate legislative framework, information exchange agreements between countries, maintaining tax payer confidence, effective administration and judicial machinery. The paper also shows that, on an average, the amount of cash seized during raids by income tax authorities is 4.88% of total undisclosed income admitted in those cases. Thus, if it is assumed that demonetization imposed a 40% loss (40% discount on laundering the money) upon the holders of unaccounted wealth, it would imply a loss of about 2% of unaccounted wealth (which is a small fraction of cash component of **black wealth**)

According to Ministry of Finance, in addition to wealth earned through illegal means, the term black money would include legal income that is concealed from public authorities to evade payment of taxes (income tax, excise duty, sales tax, stamp duty, etc);

- > to evade payment of other statutory contributions;
- > to evade compliance with the provisions of industrial laws such as the Industrial Dispute Act 1947, Minimum Wages Act 1948, Payment of Bonus Act 1936, Factories Act 1948, and Contract Labour (Regulation and Abolition) Act 1970; and / or
- > To evade compliance with other laws and administrative procedures.

Extracts from Interviews Post Demonetization



BARBARA HARRIS-WHITE

Currency notes move in and out of this black cash sub-sector and Rs 2,000 notes are less bulky than the now illegal lower denominations, so they are easier to hoard and transport. Laws exist to curb black money, of course, but they have been poorly and selectively enforced. The new denomination cannot be a 'frontal assault' on the black economy as claimed.



ARUN KUMAR

Of Rs 13 lakh crore, at least half would be used in businesses: petrol stations, railway stations, airports, etc. What may be held in households may be only 5-6 lakh crore [rupees]. Now, assuming that the top 3 percent of the population owns much of the black wealth, that would amount to only Rs 1.5 lakh held per person. So the immobilised cache of black money is just Rs 2-3 lakh crore.



PRABHAT PATNAIK

Since there is no distinction between black money held as part of business and white money held as part of business, many of those engaged in black business would like to get others engaged in white business to change money for them. And they would, therefore, backdate bills and apparently purchase from them, etc. Millions of such transactions would be happening and if they do, no tax authority will be able to catch these transactions.

CONCLUSION

While it may be too early to assess the **long-term** impact of demonetization, it has surely imposed a punitive cost on terrorist funding and cash component of black assets in the **short run**. But, at what price?

Demonetization has not only imposed enormous social and economic costs in the short run but has also failed in disincentivizing future black income generation. To nip the hydra of corruption, black money and counterfeit currency in the bud, consistent efforts are needed to expand formalization and improve compliance. The event of the scale of demonetization not only impacts the functioning and progress of the country but also alters the psychological and behavioral understanding and usage of the masses with respect to an asset like cash. As such, the overall long-term economic and psychological impact of demonetization needs to be seen.

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SHRI RAM COLLEGE OF COMMERCE

University of Delhi, Maurice Nagar Delhi - 110 007

Phone: 11 - 27667905 Fax: 11 - 27666510