

DEMONETISATION

1. What is called demonetization?

Withdrawal of a coin or currency note from its use as legal tender is called demonetization.

2. What are the objectives of demonetization?

OR

Why does a Government go for demonetization?

Objectives or goals of demonetization are:

- (i) *To eliminate black money:* Black money refers to unaccounted money. Those who hold black money cannot exchange the demonetized currency with legal tender currency.
- (ii) *To eradicate fake currency:* Fake currency notes will become useless due to demonetization.
- (iii) *To fight tax evasion:* The fear of demonetization will discourage tax evasion.
- (iv) *To fight Inflation:* The elimination of black money and fake currency will reduce money supply and control inflation.
- (vi) *To encourage cashless transactions:* The shortage of currency will encourage people to go for digital transactions.

3. How was demonetization implemented in India in 2016?

- (i) On 8th November 2016, the Government announced the demonetization of 500 and 1000 rupee notes. They constituted nearly 86% of India's cash supply.
- (ii) People were given time till 31 December 2016, to deposit demonetized notes with the Banks or post offices.
- (iii) The Banks and Post Offices were instructed to report all deposits above ` 2.5 lakhs in Savings Account and above ` 12.50 lakhs to income tax department. New 500 and 200 rupee notes were introduced.

4. Trace the history of Demonetisation before 2016 in India.

- (i) ` 10000 notes were demonetized in January 1946.
- (ii) ` 10000 notes were demonetized in January 1978.

5. State the merits of demonetization?

- (i) *It helps to eliminate black money:* Black money refers to unaccounted money. Those who hold black money cannot exchange the demonetized currency with legal tender currency. Either they have to pay tax and make it white money or dispose it off.
- (ii) *It helps to eliminate fake currency notes:* Fake currency notes cannot be deposited in Banks. So, such notes will be eliminated.
- (iii) *Reduction in illegal activities:* Black money and fake currency notes are mostly used for illegal activities such as terrorism and smuggling. Elimination of black money and fake currency resulted in the decline of these activities.

(iv) *Promotion of cash less transactions:* Demonetisation encouraged people to go for digital transactions. The use of payment applications, debit cards, credit cards and online transfer increased. India is moving towards efficient cash less economy.

(v) *Increase in tax revenue:* Demonetisation forced several people to disclose their actual income and pay taxes properly. Revenue from income tax, property tax, and wealth tax and land registration fees increased considerably.

(vi) *Reduction in Government's liability:* Black money holders who did not want to disclose their income had to dispose off their old currency notes. It reduced the liability of the Government.

6. What are the demerits or adverse effects of demonetization?

(i) *Inconvenience to people:* It caused a lot of inconvenience to the people. People had to stand in long queues to deposit, exchange or withdraw notes. Sudden announcement of demonetization created panic and fear among the people. Lack of sufficient currency in the hands created a lot of trouble.

(ii) *Negative effect on Economic activities:* Demonetisation had negative effect on trade, business and consumption activities. Economy slowed down. It affected the growth of the economy.

(iii) *Costly for the Government:* The Government had to spend a lot of money to print the new currency notes that replaced the old ones.

(iv) *Difficulty in cash less transactions:* A large number of people in the country are uneducated and ignorant. They found it very difficult to carry out cash less transaction.

(v) *Corruption:* Several Bank officers illegally exchanged old notes for the new ones. They misused Jandhan accounts for that.

(vi) *Loss to daily wage earners:* Slow down of economy affected the daily wage earners. Job opportunities reduced and employers were unable to pay wages.

7. How did demonetization affect the money supply in the economy?

Money supply reduced due to demonetization. Elimination of black money and fake currency resulted in the decline of money supply. Delay in supplying new currency notes also resulted in the decline of money supply.

8. How did demonetization affect the liquidity position of Commercial Banks?

People deposited old currency notes in large quantities in their accounts. Banks got a lot of deposits. It increased the liquidity position of Banks.

9. How did demonetization affect Inflation?

Demonetisation helped in reducing the rate of inflation. Elimination of black money and fake currency resulted in reduction in money supply. This led to reduction in aggregate demand. Prices started falling in the economy.