

# ADDENDUM

## Business Studies–XII

### (Changes for the Session 2018-19)

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## BUSINESS ENVIRONMENT: Demonetisation

### Demonetisation : Concept and Features

Demonetisation refers to an economic policy where a certain currency unit ceases to be recognized or used as a form of legal tender.

In other words, a demonetized currency is not allowed to be used as a common medium of exchange.

With the demonetisation of one currency a new one comes into circulation.

The currency unit that has been demonetised is withdrawn from circulation and is deposited with the banks or other authorised financial institutions and replaced with units that still have legal tender status.

The main purpose of demonetisation is to discourage people to keep hard cash in the form of black money and getting back the money in the economy.

### Features of Demonetisation

- 1. Withdrawal of certain currency from circulation:** Demonetisation result in withdrawal of a certain currency from circulation in an economy.  
For example, on 8th Nov. 2016 was the day when ₹500 and ₹1000 were withdrawn from circulation of Indian economy.
- 2. Demonetised currency's purchasing power or exchange value get reduced to zero:** Any currency has its value only because government impart that value for example ₹2000 note has exchange value of 2000 because government has imparted this value, with demonetisation government withdraw back the exchange value of that currency and it is simply left as a piece of paper.
- 3. Elimination of Black Money:** Black money refers to unaccounted money. The holders of black money do not pay tax on this money. By demonetising high value currency notes, the government 'wanted to eliminate the stock of black money as with demonetisation, people are forced to declare their unaccounted cash balances; otherwise these balances would get reduced to pieces of paper.

4. **To demonetise is to do away with cash:** Demonetisation is expected to promote digital transactions or e-transactions in the economy. The announcement of demonetisation result in reduction of free flow of currency notes in the economy as current notes are demonetised and new one take time to be circulated, so people start using e-payment or digital cash. Moreover cashless transactions are better for an economy as with this corruption get a big jolt. Developed economies are cashless economies and free from corruption.
5. **Purpose of Demonetisation is to eliminate corruption, money laundering and terror funding:** Generally high value currency notes are used as medium of bribe or for terror funding, and money laundering. With demonetisation all these activities are badly effected in a big way.
6. **Elimination of Counterfeit Currency:** Counterfeit currency enhances money in circulation and contributes to inflationary spiral. It destabilises the economy. Demonetisation implies elimination of counterfeit currency.
7. **Support for Government Finance:** The government benefits from the additional cash that is pushed into the economy. Besides, tax collection also increases.

### **Demonetisation in India**

November 8, 2016 was the day when ₹500 and ₹1000 notes were withdrawn from circulation. It amounted to withdrawal of 86% currency in circulation. People were advised to go to bank to replace old notes with the new one.

There were long queus inside and outside the banks. The economy was trapped in liquidity crises but by and large people cooperated as they believed that demonetisation was an action against black money and a move in favour of poor. This was, indeed, a very bold step by the governments.

