

Investor's Perception towards Demonetisation: A Preliminary Study

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Abstract

Recently, on 8 November 2016 the Government of India had announced demonetization of Rs 500 and Rs 1000 bank notes. The Government claimed that this action curtails the shadow economy and crackdown on the use of illicit and counterfeit cash to found illegal activity and terrorism. The sudden announcement of demonetization created significant disruption throughout the economy, threatening economic output and which is also criticized as poorly planned, unfair and was met with protest, litigation and strikes. This decision also affected to stock market, the BSE SENSEX and NIFTY 50 stock indices fell over 6% on the after the announcement of demonetization, this result indicates that the investors also suffered from the announcement of demonetization. To this backdrop the present paper examined the perception of investors towards the announcement of demonetization. For this purpose the researcher used primary data by selecting 100 investors in Tumakuru as sample size according to the convenient sampling technique. Finally investors believe the impact is temporary and Investors are optimistic about long term prospects of the economy of the country. They hope that demonetization may help to boost economic progress of the country by curbing block money.

Keywords: Investors, Demonetization, Perception, Stock Market

Introduction

The Government of India had demonetized bank notes on two prior occasions once in 1946 and then in 1978, in both cases, the aim of government was to combat by tax evasion by 'block money' held outside the formal economic system. In 1946 (pre-independence), the government hoped demonetization would penalize Indian businesses that were concealing fortunes amassed supplying the allies in II world war. In 1978 the Janatha party coalition government demonetized bank notes of Rs 1000, Rs 5000 and Rs 10000 again in the hope of curbing counterfort money and black money. In 2012 The CBDT had recommended against demonetization, saying in its report that 'demonetization may not be a solution for targeting black money in economy, which is largely held in the form of benami properties, bullion and jewelry. As per Income Tax Department data black money holder kept only 6% as cash out their total wealth, targeting this amount would not be a successful strategy. Recently, on 8 November 2016 the government of India had announced demonetization of Rs 500 and Rs 1000 bank notes. The Government claimed that this action curtails the shadow economy and crack down on the use of illicit and counterfeit cash to found illegal activity and terrorism. The sudden announcement of demonetization created significant disruption throughout the economy, threatening economic output and which is also criticized as poorly planned, unfair and was met with protest, litigation and strikes.

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Objectives and Methodology of the Study

The present study entitled "Investor's Perception Towards Demonetization" set forth the following objectives

1. To understand the background of Demonetiasation
2. To examine Investor perception towards demonetization

To meet the above objectives of the study, the researchers used both primary as well as secondary data. The primary data has been collected from the questionnaire method. The sample size of 100 investors

was taken in Tumakuru district based on convenience sampling technique and the required secondary information are collected from various magazines, articles, websites etc. For the purpose of analysis of data the statistical tools like average, percentage and for hypothesis testing, chi-square has been employed. The one way chi-square (χ^2) is calculated by using the following equation

$$\chi^2 = \sum_{i=1}^r \sum_{j=1}^c \frac{(A_{ij} - E_{ij})^2}{E_{ij}}$$

Hypothesis of the Study

H₀

Investors do not have perception towards announcement of demonetization in India.

H₁

Investors do have perception towards announcement of demonetization in India.

Analysis and Interpretation

Table-1: Socio-Economic Background of the Respondents

Attributes	Attributes	f
Gender	Male	71
	Female	29
	Total	100
Occupation	salaried employees	38
	self employed	31
	Business man	23
	Other	8
	Total	100
Annual Income	Below Rs250000	92
	below Rs250000 to Rs 500000	8
	Below Rs 500000 to Rs 1000000	Nil
	Above Rs 1000000	Nil
	Total	100

Source: Primary data

From the table-1, Out of 100 respondents, 71 male respondents and 29 female respondents were participated in this survey. 38% of respondents were salaried employees and 31% self-employed and 23%

were of business men and rest of the persons belongs to other jobs. It is clear from the survey that majority of the respondents (92%) fall under the income group of Rs 250000 per annum.

Table-2: Investors Response towards Demonetization

Descriptions	Attributes	frequency
Did you mind demonetization inconvenience faced in the fight to curb corruption, black money etc?	a) Yes	49
	b) No	51
	Total	100
Has this move disrupted your regular routine?	a) Yes	44
	b) No	56
	Total	100
Did you have to forego any potential opportunity pertaining to career/personal life due to the currency shortage?	a) Yes	29
	b) No	71
	total	100
What is your primary objective of investment?	A) Security	27
	b)growth	16
	c)security and growth	51
	d)Maximum growth	6
	Total	100
Which risk is of most in the market with regarding demonetization of currency?	a) liquidity	50
	b) price/potential	13
	c)operational	17
	d) All of the above	20
	Total	100
How secure is your current and future income with respect to demonetization?	a) Fully Secured	25
	b) Secured	44
	c) Somewhat secured	29
	d) Not secured	2
	Total	100
Please provide your preference area of investment in coming days.	a) Real Estate	11
	b) Capital market	20
	c) Gold	15
	d)Mutual fund	15
	e) other	39
In the past two months, the overall stock market lost 20% of its value. An individual stock investment you may also lost 20% of its value. What would you do?	Total	100
	a)Sell all of my shares	7
	b)sell some of my shares	16
	c)do nothing	60
	d) buy more shares	17
	Total	100

How optimistic are you about the long-term prospects for the economy?	a)very pessimistic	0
	b)unsure	27
	c)somewhat optimistic	48
	d) very optimistic	25
	Total	100
Demonetization will bring real estate, higher education and healthcare etc in common man's reach?	a)strongly agree	17
	b) agree	45
	c)somewhat agree	32
	d)disagree	5
	e) strongly disagree	1
	Total	100

Source: Primary data

From the table-2; It is found that half of the respondents (51 %) were inconvenienced from the move of demonetization of old currency notes. This is because they were felt happy with this movement to curb corruption and block money, and at the same time their daily life suffered from the problem of cash currency. Again nearly half of the respondents (56%) felt that the demonetization move had disrupted their regular life due to problem of currency notes as old Rs 500 and Rs 1000 rupee notes not accepted in several places of dealings. Majority section of the investors (71%) has agreed that they have not forego any potential opportunity in their career and personal life due to the currency shortage. Half of the respondents (51%) wanted "security and growth" on their investments. Majority of respondents (i.e, 50%) have agreed that capital market had faced importantly the

liquidity risk in the regular business operations. This is due to banning of old currency notes and shortage of acceptable currency notes. It is clear from the study that investor's (i.e, 44%) present and future income not affected from the move of the demonetization. Their income quite safe. 39% of the investors preferred to invest in Insurance policies, bank deposits, etc in future period. Large number of respondents (60%) were of not doing any buying or selling of securities if stock market lost its value. Nearly half of the investors (48%) are optimistic about long term prospects of the economy of the country. They hope that demonetization may help to boost economic progress of the country by curbing block money. Respondents (i.e, 45%) are of the opinion that demonetization will bring real estate, education and health care facilities etc in common's reach in our country.

Table-3 Chi-square Calculation for Hypothesis Testing

Descriptions	df	χ^2	Sig**	Remarks
Did you mind demonetization inconvenience faced in the fight to curb corruption, block money etc?	1	0.04	3.84	H₀ Accepted
Has this move disrupted your regular routine?	1	1.44	3.84	H₀ Accepted
Did you have to forego any potential opportunity pertaining to career/ personal life due to the currency shortage?	1	17.64	3.84	H₀ Rejected
What is your primary objective of investment?	3	44.88	7.81	H₀ Rejected
Which risk is of most in the market with regarding demonetization of currency?	3	34.32	7.81	H₀ Rejected
How secure is your current and future income with respect to demonetization?	3	36.24	7.81	H₀ Rejected
Please provide your preference area of investment in coming days.	4	24.6	9.49	H₀ Rejected
In the past two months, the overall stock market lost 20% of its value. An individual stock investment you may also lost 20% of its value. What would you do?	3	67.76	7.81	H₀ Rejected
How optimistic are you about the long-term prospects for the economy?	3	46.32	7.81	H₀ Rejected
Demonetization will bring real estate, higher education and healthcare etc in common man's reach?	4	68.2	9.49	H₀ Rejected

Source: compiled from Table-2 * Used M S Excel 2007 for calculation **5% level of significance

From the table-3, In maximum cases (i.e., 8 out of 10) H₀ is rejected and H₁ accepted. Hence it is proved that, the investors positively responded towards announcement of demonetization.

Findings and Conclusion

The major findings of the study are as follows

1. Out of 100 respondents, 71 male respondents and 29 female respondents were participated in this survey.
2. 38% of respondents were salaried employees and 31% self employed and 23% were of

business men and rest of the persons belong to other jobs.

3. It is clear from the survey that majority of the respondents (92%) fall under the income group of Rs 250000 per annum.
4. It is found that half of the respondents were inconvenienced from the move of demonetization of old currency notes.
5. Again nearly half of the respondents felt that the demonetization move had disrupted their regular life due to problem of currency notes as old Rs

500 and Rs 1000 notes not accepted in several places of dealings.

6. Majority section of the investors has agreed that they have not foregone any potential opportunity in their career and personal life due to the currency shortage.
7. Half of the respondents wanted "security and growth" on their investments.
8. Majority of respondents have agreed that capital market had faced importantly the liquidity risk in the regular business operations. This is due to banning of old currency notes and shortage of acceptable currency notes.
9. It is clear from the study that investor's present and future income not affected from the move of the demonetization.
10. Investors preferred to invest in Insurance policies, bank deposits, etc in future period.
11. Large number of respondents were not doing any buying or selling of securities if stock market lost its value.
12. Investors are optimistic about long term prospects of the economy of the country. They hope that demonetization may help to boost economic progress of the country by curbing block money
13. Respondents are of the opinion that demonetization will bring real estate, education and health care facilities etc in common's reach in our country.

Form the above findings of the study it can be concluded that, announcement of demonetization had created problems to investors, still they have positively responded to the demonetization of bank notes. There is little uncertainty in the minds of investors as to what to do. Demonetization hasn't really affected the overall market much and investors believe the impact is temporary and Investors are optimistic about long term prospects of the economy of the country. They hope that demonetization may help to boost economic progress of the country by curbing block money.

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