

## **Study of Effect of Demonetization on Indian Investors**

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### **Abstract**

This empirical research studies impact of demonetization on Indian investor's investment preferences and attitudes. Demonetization has affected various sectors mainly retail, stock market, gold market; real estate etc thus has impacted the investment value differently of the Indian investors. Research has been conducted on using a structured questionnaire. The sample has been collected from 229 investors of Indore district of Central India. This study assesses the impact of demonetization on their investment portfolio value and association of demographic profile of investors with effect of demonetization. Demographic variable gender, occupation, income has association to impact of demonetization on investment value of investors. Demonetization has impact on the investment avenue preference of choosing fixed deposit, shares, real estate and small saving scheme by the investors.

Keywords: Demonetization, investor, demographic, investment avenues, portfolio

### **Introduction**

Demonetization causes change in national currency by act of stripping the old currency from circulation and replacing with new denomination currency. It is a cleansing action of eradicating counterfeit currency, elimination of black money gotten from money laundering and promoting a cashless economy. However there is different impact on various sectors of the economy. As on one hand, lack of currency impacts consumption, saving and investments and on the other side, demonetization has deep impact on individual's disposal income effecting their choice of investment and objectives of investments. This research study has been conducted post demonetization on investors of Indore District of Central India through a structured questionnaire with sample size of 229 respondents to assess the impact of demonetization on the investment value of investors, find association of impact of demonetization on various investors of different demographic characteristics and finally analyze the impact of demonetization on choice of investment avenues by the investors in their investment portfolio.

### **I. Literature Review**

Demonetization has profound impact on the consumption, saving and investment of the common investor as it temporarily blocks the flow of currency. RBI stated on 31<sup>st</sup> March 2016 that total bank notes in circulation were Rs.16.42 lakh crore and roughly 86% was in denomination of Rs. 500 and Rs. 1000 notes. It acts like a liquidity shock by sucking away the large denomination notes from circulation. Also individuals have to deposit their entire cash pile to banks and inform tax liabilities accordingly. It also reduces the interest rate prevalent in the market as money moves to main economy from parallel economy. Demonetization helps in eradicating black money, avoids tax evasion, reduces counterfeit currencies and promotes cashless economy. These changes impact the common investor's investment surplus and their financial decisions. Also, the impact of demonetization is large on various sectors especially banking, e-payment companies, real estate, consumer durable, gems and jewellery etc. It may

also bring a shift in financial investment strategies as cash may not be considered as safest and investors may shift from holding physical cash to investing in financial instruments where returns are higher. Also, there may be decline in demand for gems and jewellery as an investment option.(Rajini and Shantini, 2014). Pushp D. Dagar (May 2017), assessed effect of demonetization decision taken on 8<sup>th</sup> November 2016 on Indian economy. Based on the weighted average price of real estate in eight major cities, he identified decline in price of real estate. This may make housing affordable to middle class households. Tax liabilities are also impacted due to demonetization of the common investors. Pratap and Virender (2016) in their article on demonetization highlighted the highest level of currency circulation in the Indian household of 12.1% of GDP. Cash aggregated to approximately 3.2% of household assets. The major portion of cash generated occurred from economic transactions not reported for taxation hence would result in disappearance of the currency or reporting the same to tax authorities. In the study authors also expected price level to drop due to moderation in demand. Dhandayuthapani and Vishnupriya (2017) in their study of demonetization effect on various sectors assessed fall in price of shares traded in stock market due to large deposits in bank. They also concluded that withdrawal of currency notes in the market will boost demand for bond market. Real estate market would undergo cleansing due to reduction in black money. Bharadwaj R et al ( 2017) deduced significant impact of demonetization on Indian stock market. Thus, investors need to collect relevant information while taking their investment decisions. However, impact of demonetization cannot be assessed very clearly as demonetization is just one move in the chess board. Several many initiatives to reap the benefits of demonetization has to be taken by the Government of India. (Deodhar 2016).

Practitioners advised investors to relook at their investment portfolio post demonetization. Gaurav Mashruwala (CFP) advised not to anchor minds to past valuations of securities post demonetization. Thus, demonetization could have substantial impact on the investment decisions. CFP Yogita Dand pointed out that large Indian population invested money in fixed deposit and hence would get adversely impacted by demonetization as interest rates fall. Vidya Bala, Head of mutual fund research assessed that post demonetization higher percentage of investors may divert from physical assets like cash/real estate/gold/silver towards mutual fund investment (DNA, Mumbai).

## **II. Objectives**

1. To study impact of demonetization on the investment portfolio value of the investors.
2. To identify association of demographic characteristics of the investors and impact of demonetization.
3. To find the investment avenues in the investor's portfolio impacted by demonetization.

## **III. Hypotheses**

(Ho)<sub>1</sub> – The impact of demonetization on the investment value of investor is independent of demographic variables

(H<sub>1</sub>)<sub>1</sub> – The impact of demonetization on the investment value of investor is dependent on demographic variable

(Ho)<sub>2</sub> –The impact of demonetization on the investment avenue choice of investor is independent of demographic variables

(H<sub>1</sub>)<sub>2</sub> –The impact of demonetization on the investment avenue choice of investor is dependent of demographic variables

#### IV. Research Methodology

Research methodology used in the research aims to study impact of demonetization on the investment value of the investor and find association of demographic variables with the impact of demonetization on the investors. In this study, hypotheses of research problem are tested and suitable techniques and tools are applied to the subject under study. The study is conducted based on structured questionnaire consisting closed ended as well as open ended questions on the investment preferences and impact of demonetization. The data was collected from diversified set of individual investors. The target population for the study is investors from Indore district in state of Madhya Pradesh, Central India.

##### Sampling Design

The target respondents include investors from varied backgrounds of age, qualification, occupation, income level, who are active investors and are involved in individual financial planning decisions. Judgmental sampling with a sample size of 229 respondents is used in the research.

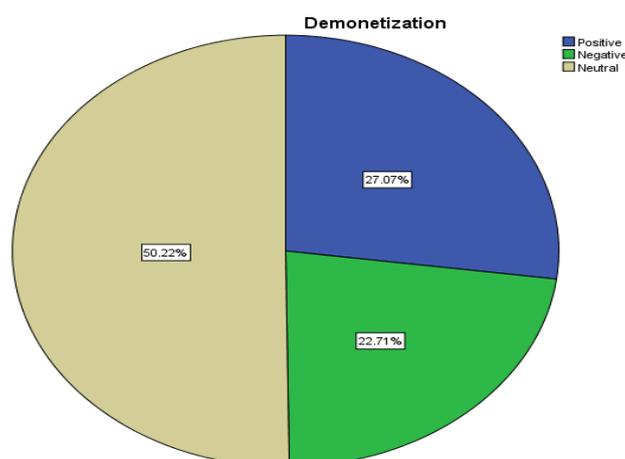
##### Data Collection

The primary data for the study is collected through structured questionnaire probing into the impact of demonetization and investment preferences of investors. The questionnaire consists of close-ended as well as open- ended questions. The responses are gathered online or physically through a hard copy. The data collection went for period of five months during the month of February 2017 to June 2017. Secondary data has been collected from research papers, web portals and financial news etc.

#### A. Data Analysis and Interpretation

To study the impact of demonetization on the investment value of the investor's, responses were gathered through structured questionnaire in form of closed questions. Investors were asked to choice their experience of effect of demonetization on investment to be either positive, negative, neutral. As per figure I.1 27% of the respondents had positive impact on their investment value, 23% of the respondents had negative impact on their investment and remaining 50% experienced neutral impact on the investment value.

Figure I.1



The impact of demonetization has been of different on various investors broadly classified as positive, negative and neutral impact. Chi- Square test at 5% significance level is applied to find association of demographic variables and impact of demonetization.

**Figure I.2 : Statistics of Demographic Profile of Investors**

			Demonetization			Total
			Positive	Negative	Neutral	
Gender	Male	Count	39	43	62	144
		% within Gender	27.1%	29.9%	43.1%	100.0%
	Female	Count	23	9	53	85
		% within Gender	27.1%	10.6%	62.4%	100.0%
Age	Below 30 years	Count	21	15	49	85
		% within Age	24.7%	17.6%	57.6%	100.0%
	30-45 years	Count	26	19	48	93
		% within Age	28.0%	20.4%	51.6%	100.0%
	46-60 years	Count	8	7	10	25
		% within Age	32.0%	28.0%	40.0%	100.0%
	Above 60 years	Count	7	11	8	26
		% within Age	26.9%	42.3%	30.8%	100.0%
Occupation	Salaried	Count	36	13	58	107
		% within Occupation	33.6%	12.1%	54.2%	100.0%
	Business	Count	11	21	20	52
		% within Occupation	21.2%	40.4%	38.5%	100.0%
	Professional	Count	5	8	18	31
		% within Occupation	16.1%	25.8%	58.1%	100.0%
	Student	Count	5	3	12	20
		% within Occupation	25.0%	15.0%	60.0%	100.0%
	Housewife	Count	3	2	4	9
		% within Occupation	33.3%	22.2%	44.4%	100.0%
	Retired	Count	2	5	3	10
		% within Occupation	20.0%	50.0%	30.0%	100.0%
Income	Below Rs.500000	Count	28	9	54	91
		% within Income	30.8%	9.9%	59.3%	100.0%
	Rs 500000 – 1000000	Count	12	19	28	59
		% within Income	20.3%	32.2%	47.5%	100.0%
	Rs 1000001- Rs 20 00000	Count	14	13	22	49
		% within Income	28.6%	26.5%	44.9%	100.0%
	Above Rs. 2000000	Count	8	11	11	30
		% within Income	26.7%	36.7%	36.7%	100.0%

To study association of gender and demonetization impact, Chi-Square is calculated, value of which is 12.707 (figure I.3). The standard value is 5.99 at 2 degree freedom and 5% significance level. As calculated value is higher than the standard value, null hypotheses is rejected and alternative hypothesis is accepted and thus there is significant relationship between gender and demonetization. As per Figure I.2, 62.4% of female respondents had neutral impact on their

investment value as compared to 43.1% of male respondents. Positive experience was almost equal with 27.1% of the each of the respondents. Only 10.6% female has negative response as compared to 29.9% of male.

**Association of Gender and Demonetization Impact Chi-Square Test: Figure I.3**

	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	12.707 <sup>a</sup>	2	.002
Likelihood Ratio	13.679	2	.001
Linear-by-Linear Association	2.762	1	.097

The Figure of I.4 calculates the Chi-Square test to find association of age and demonetization. The calculated value of 9.754 is lower than the standard value of 12.6 at 6 degree freedom. Thus, null hypothesis is accepted and thus there is no significant relationship between age and demonetization.

**Association of Age and Demonetization Impact Chi-Square Test: Figure I.4**

	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	9.754 <sup>a</sup>	6	.135
Likelihood Ratio	9.225	6	.161
Linear-by-Linear Association	3.177	1	.075

The Figure of I.5 calculates the Chi-Square test to find association of occupation and demonetization. The calculated value of 23.847 is higher than the standard value of 18.3 at 10 degree freedom and thus alternative hypothesis is accepted and significant relationship between occupation and demonetization is deduced.

**Association of Occupation and Demonetization Impact Chi-Square Test: Figure I.5**

	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	23.847 <sup>a</sup>	10	.008
Likelihood Ratio	23.186	10	.010
Linear-by-Linear Association	.071	1	.790

The impact of demonetization is different on various occupations. Business and retired has high negative impact of demonetization.58% professionals have neutral impact of demonetization on their investment value. Salaried and housewife has high positive impact.

The Figure I.6 finds association between Income and demonetization. The calculated value of 16.277 is higher than the standard value of 12.6 at 6 degree freedom. Hence alternative hypothesis is accepted and significant relationship between income and demonetization is established.

**Association of Income and Demonetization Impact Chi-Square Test: Figure I.6**

	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	16.277 <sup>a</sup>	6	.012
Likelihood Ratio	17.480	6	.008
Linear-by-Linear Association	1.399	1	.237

Investors with income above Rs.2000000 have higher negative impact of demonetization. Major Investors with income below Rs 500000 have neutral or positive impact of demonetization. Middle income group has mixed impact of demonetization.

Though as per experts, it is too early to assess the impact of demonetization, the moves does raises long term impacts and brings changes in investor's investment preference. This empirical research study assesses the impact of demonetization on nine different types of investment avenues. To undertake this study Chi-Square test has been applied at 5% significance level with null hypothesis deducing no significant impact of demonetization on the investment avenue preference of the investor as against alternative hypothesis establishing significant relationship between demonetization and the investment avenue preference of investors.

**Figure I.7: Association of Demonetization and preference towards Saving Account:**

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	14.284 <sup>a</sup>	16	.578

The standard value at 16 degree freedom and 5% significance level is 26.3. As per figure I.7, the calculated value 14.284 is less than the standard value hence there is no significant impact of demonetization on preference towards saving in bank account

**Figure I.8: Association of Demonetization and preference towards Fixed Deposit:**

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	26.567 <sup>a</sup>	16	.047

The standard value at 16 degree freedom and 5% significance level is 26.3. As per figure I.8, the calculated value 26.567 is higher than the standard value hence there is significant impact of demonetization on preference towards fixed deposit in bank.

**Figure I.9: Association of Demonetization and preference towards Government Small Saving Scheme:**

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	39.115 <sup>a</sup>	16	.001

The standard value at 16 degree freedom and 5% significance level is 26.3. As per figure I.9, the calculated value 39.115 is higher than the standard value hence there is significant impact of demonetization on preference towards government small saving scheme.

**Figure I.10: Association of Demonetization and preference towards Life Insurance:**

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	15.548 <sup>a</sup>	16	.485

The standard value at 16 degree freedom and 5% significance level is 26.3. The calculated value 15.548 is less than the standard value hence there is no significant impact of demonetization on preference towards Life insurance.

**Figure I.11: Association of Demonetization and preference towards Mutual Fund:**

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	17.442 <sup>a</sup>	16	.358

The standard value at 16 degree freedom and 5% significance level is 26.3. The calculated value 17.442 is less than the standard value hence there is no significant impact of demonetization on preference towards Mutual Fund.

**Figure I.12: Association of Demonetization and preference towards Shares:**

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	32.622 <sup>a</sup>	16	.008

The standard value at 16 degree freedom and 5% significance level is 26.3. The calculated value 32.622 is higher than the standard value hence there is significant impact of demonetization on preference towards Shares.

**Figure I.13: Association of Demonetization and preference towards Capital Market Debt Instruments:**

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	17.996 <sup>a</sup>	16	.324

The standard value at 16 degree freedom and 5% significance level is 26.3. The calculated value 17.996 is less than the standard value hence there is no significant impact of demonetization on preference towards Capital Market Debt Instruments.

**Figure I.14: Association of Demonetization and preference towards Real Estate:**

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	27.160 <sup>a</sup>	16	.040

The standard value at 16 degree freedom and 5% significance level is 26.3. The calculated value 27.160 is higher than the standard value hence there is significant impact of demonetization on preference towards Real Estate.

**Figure I.15: Association of Demonetization and preference towards Gold/Silver:**

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	14.700 <sup>a</sup>	16	.547

The standard value at 16 degree freedom and 5% significance level is 26.3. The calculated value 14.700 is less than the standard value hence there is no significant impact of demonetization on preference towards Gold/Silver.

**IV. Conclusion**

This empirical research paper assess that there is significant relationship between demographic characteristics of gender, occupation and income on impact of demonetization on the investors investment portfolio value. However, no significant relationship has been deduced between age and impact of demonetization on the investment value. Demonetization has also profoundly impacted the investment preferences of the investors. Investor’s preferences towards Bank Fixed Deposit, Government Small Saving Scheme, Shares and Real Estate have been significantly impacted by demonetization. However, investment avenues such as Saving Account, Life Insurance, Mutual Fund, Capital Market Debt Instruments and Gold/Silver have no significant impact of demonetization. Demonetization measure by the Government of India heads strongly towards a cashless economy and expected to improve transparency and business growth. It is a wake-up call and waited to bring better changes in long term future for Indian economy.

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