

# A STUDY OF PERCEPTION AND ATTITUDE TOWARDS DEMONETIZATION WITH SPECIAL REFERENCE TO PUNJAB

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## **P**URPOSE

THE objectives of the study were to analyze the perceived benefits of demonetization and identify the major factors determining the attitude of people towards demonetization.

**Design/Methodology/Approach:** Primary data have been used for the present research and have been collected through a pre-tested structured questionnaire. Questionnaire consisted of statements on a five point Likert scale ranging from 'Strongly Agree' to 'Strongly Disagree' measuring perceived benefits of demonetization. A sample of 190 respondents (mostly from salaried class or professionals) was selected from the state of Punjab through judgmental sampling technique.

**Findings:** Analytical tools like Exploratory Factor Analysis (EFA), Confirmatory Factor Analysis (CFA) and Structural Equation Modeling (SEM) have been deployed to analyze the data and draw inferences. Reliability and validity of the scale were checked through CFA. The findings revealed financial inclusion, improved national environment, less cash economy, and improved consumption & investment pattern as main benefits of demonetization perceived by respondents. The most influential factor determining positive attitude towards demonetization is less cash economy and financial inclusion.

**Research Limitations:** As the study has been conducted in Punjab state. It has limited implications for the rest of the states of India.

**Practical Implications:** The results of the study can be very helpful for the policy makers as it has been revealed through the study that people don't perceive improved national environment as perceived benefit of demonetization. Demonetization was induced in economy to improve national environment by targeting terrorism, corruption, reducing black money, fake currency etc. But as per the results, these benefits have not been perceived by the public. Therefore, better strategies must be developed to improve national environment.

**Originality/Value:** This study is probably the first to empirically analyse the benefits of demonetization perceived by people.

**Key Words:** Demonetization, Perception, Attitude, Benefits.

## Introduction

Increasing inflation, corruption issues like 2G spectrum and coal scam were the major issues that were highlighted in general elections 2014. Due to these issues, NDA won general elections 2014. BJP alone

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swept 279 seats and was even able to form government of his own without allies. As per the statements given by BJP leaders, process of demonetization was commenced six to ten months back. PMO had constituted a special team of approximately 10 members including RBI Governor, Urjit Patel and Finance Secretary, Shaktikanta Das. Extreme confidentiality was maintained while taking the decision. Even cabinet ministers were not having knowledge of the same.

Finally on November 8, 2016, Prime Minister Narendra Modi made an unprecedented speech on National television regarding demonetizing high denomination currency notes of Rs 500 and Rs 1000 in order to curb issues like black money, corruption, and terrorism. After the announcement, banks were kept closed for the next two days leaving little room for black money hoarders and corrupt officials to get their money converted. Initially, due to several restrictions, many people criticized the decision because they had to wait in long queues in banks. Further mismanagement in decision implementation created anger among people towards demonetization. But gradually things got better, more cash was made available with banks, cash withdrawal restrictions were removed. People started using debit cards, credit cards, e-wallets, etc. The massive electoral victory of BJP in recent elections held in Uttar Pradesh, Gujarat, and Himachal Pradesh shows that people have now started supporting this decision. Popp, Potori, Garay, Dobo, & Singh stated that government cofinancing should take into account not just the needs of the beneficiary but also the potential impact of the investment on the wider local economy. The present research has been undertaken to explore the benefits of demonetization perceived by people as well as to identify the major factors determining attitude towards demonetization.

## **Review of Literature**

Gajjar (2016) conducted a conceptual study to analyze benefits of demonetization and concluded that black money will impact significantly social, political and economic perspective of lives and demonetization move would give a message to society about the seriousness of government to curb the problem of black money.

Rani (2016) conducted a conceptual study to analyze benefits of demonetization which showed that initial impact on market was adverse but later on it led to the adoption of cashless economy which helped the people to find new ways of business. It also helped to control black money.

Gayathiri, Anishaa, & Anandhi (2017) conducted a conceptual study and concluded that the initiative of demonetization had a substantial impact on the economy. The action against the black money holders had a positive impact thereby leading to the promotion of digital payments. Even though demonetization created a crunch in the circulation in the economy, it was a positive move towards disclosing the black money and reducing the parallel economy.

Goriparthi, & Tiwari (2017) conducted a conceptual study to analyze benefits of demonetization and concluded that demonetization by government will lead to a tremendous increase in cashless economy. Demonetization move had helped to remove the traditional difficulties which were preventing Indians from adopting cashless economy.

Govil (2017) conducted a conceptual study and concluded that demonetization would be better for financial and development sectors and could have an adverse effect on consumer durables, luxury products, real estate, and allied sectors. It will help in better tax compliance, lowering inflation, reducing corruption, and elimination of black money.

Jain, & Kamath (2017) conducted a conceptual study and concluded that the lack of tax compliance, fake currency, and criminal activities were the main reasons because of which the government of India took the decision of demonetizing certain currency notes. It was suggested that although the Government of India introduced new currency notes, the process of demonetization will not change the situation unless the mindset of Indians towards tax payment gets changed.

Mahajan, & Singla (2017) conducted a conceptual study to analyze the benefits of demonetization. The findings revealed that common man was the most affected one by demonetization. The objective of inclusive growth along with the growth of Indian economy can be achieved by making technology available with all the masses of population.

Samuel, & Saxena (2017) conducted a conceptual study to analyze benefits of demonetization and concluded that it reduced the unlawful activities for some time. But it negatively impacted the sectors which are more dependent on cash transactions. It also impacted the GDP adversely. The study also revealed that despite some difficulties in the short term, it would be beneficial in the long run for the economy as a whole.

Shirley (2017) conducted a conceptual study to analyze benefits of demonetization. He stressed that cash holdings is less than 5% of total black money in the economy. Proper planning and management was required before taking the step of demonetization in order to reduce the difficulties faced by the common man. It had impacted the international standing of Indian economy as well.

Singh, Sawhney, & Kahlon (2017) conducted a sentimental analysis with statements on twitter account. 18,926 tweets were collected from November 8, 2016 to November 16, 2016. Afterwards 11,294 tweets were collected from November 17, 2016 to November 23, 2016 from various states. State-wise analysis indicates that out of 29 states and capital New Delhi, only nine states had negative sentiments, and were dissatisfied with the decision of Modi Govt. for demonetization.

**Research Gap:** From above review of literature, it has been found that number of studies has been conducted on demonetization but majority are conceptual studies mentioning pros and cons of demonetization. Only one study by Singh, et al. (2017) focused on the sentiments of the people towards demonetization but not even a single study was found which made empirical analysis of the perception and attitude of the people towards demonetization. As demonetization happened in November 2016, less work has been done focusing on its benefits and peoples' attitude towards it. Hence, the present study has been conducted to fill this research gap.

## **Research Methodology**

The present study has been undertaken with the following specified objectives:

- To analyze the perceived benefits of demonetization
- To identify the major factors determining the peoples' attitude towards demonetization

**Data Collection Instrument:** Primary data have been used for the study, collected through a pre-tested structured questionnaire. Questionnaire consisted of statements measuring perceived benefits of demonetization which were measured on a 5-point Likert scale ranging from 'Strongly Agree' to 'Strongly Disagree'. Overall attitude of respondents towards government's demonetization move has also been measured on the same scale. Along with this, the questionnaire also sought information on age, income, occupation, and education qualification of respondents. A sample of 190 respondents (mostly from salaried class or professionals) was selected from the state of Punjab through judgmental sampling technique.

**Pilot Survey:** Pre-testing was done with a small sample size of 30 respondents with an intention to improve overall configuration of the questionnaire. Originally, the questionnaire contained twenty two statements measuring perceived benefits of demonetization. After pre-testing, three items were dropped.

**Data Analysis Techniques:** Exploratory factor analysis was run to identify the latent variables measuring perceived benefits of demonetization. Confirmatory factor analysis was deployed to check the reliability and validity of the scale. Structural Equation Modeling was used to identify the determinants of peoples' attitude towards demonetization.

## Analysis and Interpretation

### Descriptive Analysis

Most of the respondents (85%) in the sample are salaried persons. There were just 15% respondents related to businessmen category. Income wise analysis shows that 56% respondents were from earning group having earnings more than Rs. 50,000 per month, followed by 33% respondents from Rs.20,000 to Rs.50000 monthly income group. Majority of the respondents were from graduate and post graduate. As far as respondents' attitude towards demonetization is concerned, 53% of the respondents showed a positive attitude towards demonetization, where as 31% of the respondents showed their disagreement towards demonetization as a positive move.

### Exploratory Factor Analysis

Nineteen statements were used in the questionnaire to examine the perception towards benefits of demonetization. Exploratory Factor Analysis was run with the help of PASW 18. Since, factor analysis is a correlation based technique, Bartlett test of sphericity was checked (chi square = 8298.587, degrees of freedom = 171, significance = 0.00) to check correlations among the variables. KMO value found as 0.863, which confirmed the sampling adequacy for the application of factor analysis. Through Exploratory Factor Analysis, four factors were extracted altogether explaining 87.615 per cent of the total variation in the data as illustrated in table no. 1.

Cronbach's Alpha was calculated to check the reliability of the data. Through varimax rotation method, all variables loaded into four factors without any cross loadings. Table no. 1 displays the extracted factors and their significant variables.

**Table No. 1: Factors Influencing Perceived Benefits of Demonetization**

| Sl. No.        | Factors  | Factor Loadings | Eigen Value | Percentage of Variance Explained | Cumulative Percentage of Variation Explained |
|----------------|--|-----------------|-------------|----------------------------------|--|
| F <sub>1</sub> | Financial Inclusion  |                 | 7.908       | 28.431                           | 28.431                                       |
| a.             | Tax collection system has improved as everyone will prefer to pay tax  | 0.911           |             |                                  |  |
| b.             | Post demonetization banking activities have been increased as everyone prefers to keep their extra cash in banks | 0.906           |             |                                  |  |
| c.             | People of rural areas have started using banks post demonetization   | 0.904           |             |                                  |  |
| d.             | People belonging to weaker sections have started using banks post demonetization                                 | 0.899           |             |                                  |  |
| e.             | There is proper distribution of subsidy to weaker sections through bank accounts                                 | 0.893           |             |                                  |  |
| f.             | Labor class is getting all the benefits like ESI, PF as their salary is being credited to their bank accounts    | 0.886           |             |                                  |  |
| F <sub>2</sub> | Improved National Environment  |                 | 4.932       | 21.707                           | 50.137                                       |
| a.             | Demonetization has resulted in less fake currency  | 0.890           |             |                                  |  |

|                |  |       |       |        |        |
|----------------|--|-------|-------|--------|--------|
| b.             | Demonetization has controlled terrorism to some extent                         | 0.887 |       |        |        |
| c.             | Demonetization has resulted in lesser black money                              | 0.887 |       |        |        |
| d.             | It has controlled inflation to some extent                                     | 0.887 |       |        |        |
| e.             | Demonetization has controlled corruption to some extent                        | 0.878 |       |        |        |
| F <sub>3</sub> | Less Cash Economy  |       | 2.238 | 18.905 | 69.043 |
| a.             | Payments through e-wallets have been increased post-demonetization             | 0.901 |       |        |        |
| b.             | It has resulted in more usage of bank cards like debit card, credit card, etc. | 0.884 |       |        |        |
| c.             | People prefer to hold less cash post demonetization                            | 0.883 |       |        |        |
| d.             | Paper less currency system has resulted in cost reduction                      | 0.882 |       |        |        |
| F <sub>4</sub> | Improved Consumption and Investment Pattern                                    |       | 1.570 | 18.572 | 87.615 |
| a.             | People prefer to spend more on consumption instead of savings in cash          | 0.923 |       |        |        |
| b.             | People prefer to invest in gold instead of savings in cash                     | 0.913 |       |        |        |
| c.             | People prefer to invest in real estate instead of savings in cash              | 0.912 |       |        |        |
| d.             | People prefer to invest in stock market instead of savings in cash             | 0.835 |       |        |        |

Source: Primary Data.

### Reliability Analysis

Reliability means the scale gives consistent results in case of repeated measurements. The criteria to check the reliability of the scale is whether composite reliability and coefficient alpha are greater than 0.7 (Malhotra, & Dash, 2011). As shown in Table no. 2, both composite reliability and Cronbach's Alpha are greater than 0.7. Hence, scale has been found to be reliable.

### Confirmatory Factor Analysis

Confirmatory Factor Analysis (CFA) was used to check the various types of validity and the results have been displayed in table no. 2. To improve the model fitness, modification indices have been used, which suggest that about how much the value of  $\pm 2$  for the model will be improved by freeing each fixed path present in the model (Loehlin, 2004). The CFI (Comparative Fit Index) value has been found as 0.920 confirming the model fitness of CFA.

**Content Validity:** The content validity of a construct can be defined as the degree to which the measure spans the domain of the construct's theoretical definition (Rungtusanatham, 1998). This was assured as dimensions of the scale were finalized after identifying from the existing research and getting them reviewed by professionals and academicians.

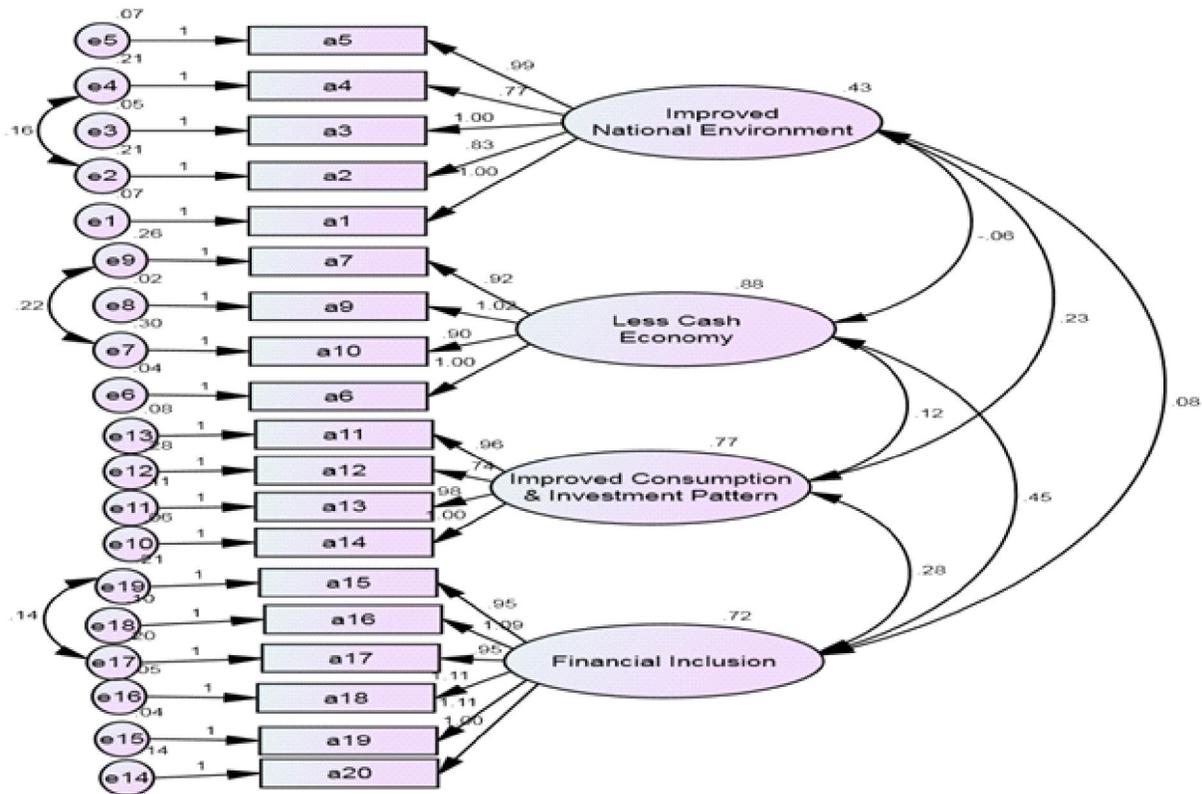


Figure No. 1: Confirmatory Factor Analysis

Source: Primary Data

**Construct Validity:** This validity is checked to ensure accuracy of measurement of targeted variables by their respective construct (O' Leary-Kelly, & Vokurka, 1998). A separate measurement model was specified for each construct and CFA was run. For construct validity, comparative fit index (CFI) value should be above 0.90. The construct validity of all the four dimensions has been shown in the table no. 2.

**Convergent Validity:** For ensuring Convergent Validity, Composite Reliability (CR) should be more than Average Variance Extracted (AVE) and AVE should be above 0.5 (Hair, Anderson, Tatham, & Black, 2010). As shown through table no. 2, this validity was ensured as AVE of all constructs is greater than 0.5 and CR is more than AVE.

**Discriminant Validity:** If variables of different constructs are unique and they don't correlate with measures of other constructs, it shows presence of discriminant validity. AVE should be more than Maximum Shared Squared Variance (MSV) to ensure discriminant validity (Hair, et al., 2010). The results displayed in table no. 2 show presence of discriminant validity for each construct.

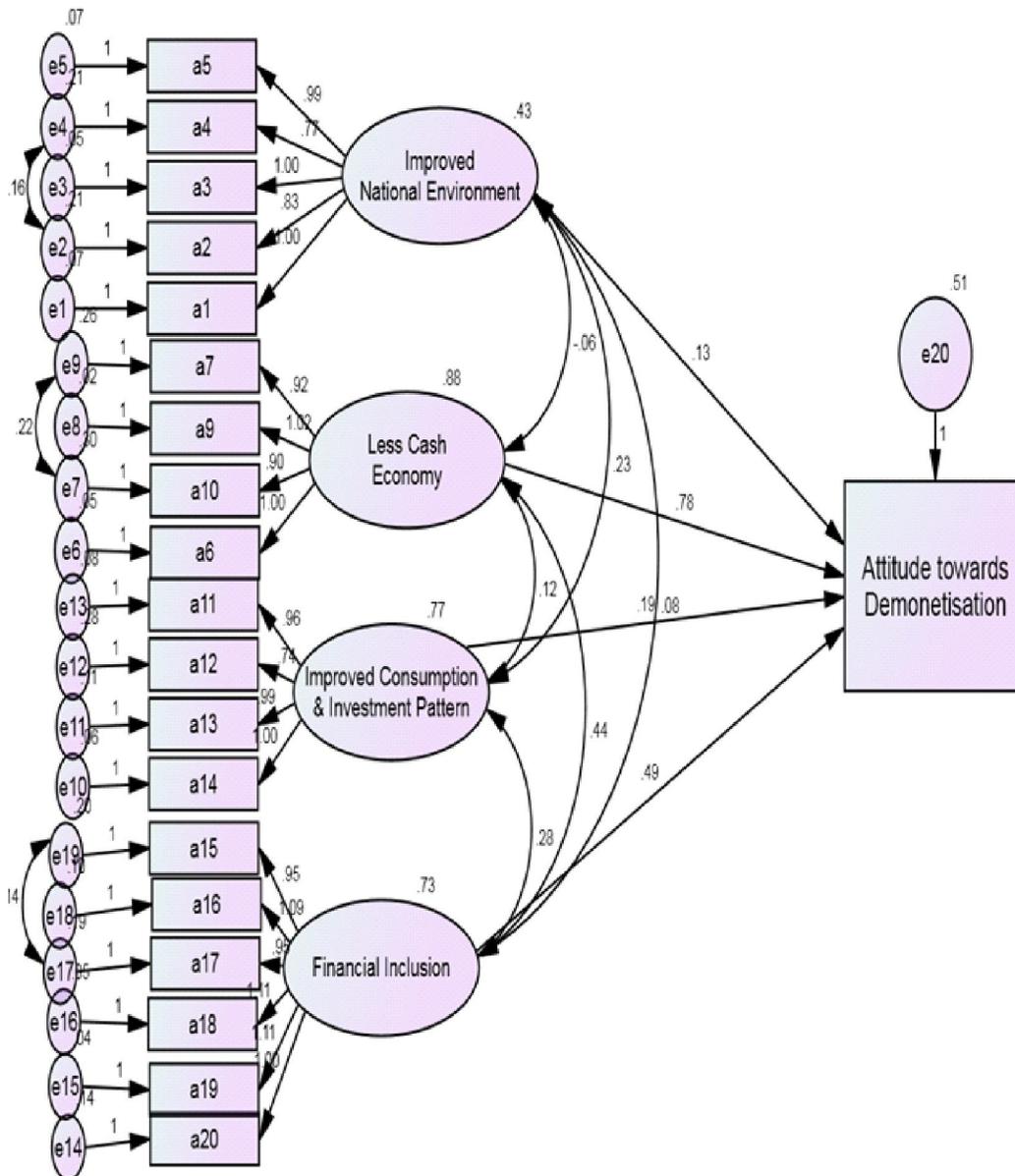
### Structural Equation Modelling

Structural Equation Modelling (SEM) method has been applied in order to analyse the most important determinant of positive or negative attitude towards demonetization. The analysis has been done with the help of AMOS 18 and results have been displayed in Figure no. 2 and reported in Table no. 3.

**Table No. 2: Indices for Checking Reliability and Validity**

| Constructs                                  | Cronbach's Alpha | CR    | AVE   | MSV   | CFI   |
|---|------------------|-------|-------|-------|-------|
| Improved National Environment               | 0.944            | 0.936 | 0.746 | 0.159 | 0.999 |
| Less Cash Economy                           | 0.965            | 0.956 | 0.844 | 0.311 | 1.000 |
| Improved Consumption and Investment Pattern | 0.948            | 0.949 | 0.825 | 0.159 | 0.995 |
| Financial Inclusion                         | 0.978            | 0.974 | 0.861 | 0.311 | 0.930 |

Source: Primary Data



**Figure No. 2: Results of Structural Equation Modeling**

Source: Primary Data

**Table No. 3: Determinants of Attitude towards Demonetization**

| Endogenous Variable             | Exogenous Variable                          | Standardized Regression Weights | Critical Ratio | P-Value | R <sup>2</sup> |
|---------------------------------|---|---------------------------------|----------------|---------|----------------|
| Attitude Towards Demonetization | Improved National Environment               | 0.066                           | 1.722          | 0.076** | 69.4%          |
|                                 | Less Cash Economy                           | 0.561                           | 13.677         | 0.000*  |                |
|                                 | Improved Consumption and Investment Pattern | 0.127                           | 3.296          | 0.000   |                |
|                                 | Financial Inclusion                         | 0.319                           | 7.332          | 0.000   |                |

\*Significant at five per cent level of significance

\*\*Insignificant at five per cent level of significance

Source: Primary Data

Results shown in table no. 3 indicate that p-values of all the constructs except improved national environment are less than five percent level of significance. The results also indicate that the most influential factor is less cash economy followed by financial inclusion. The R square value shows that 69.4% of the variance in endogenous variable 'attitude towards demonetization' can be explained by considered exogenous variables. The fitness indices namely Normed Fit Index, Comparative Fit Index, and Tucker Lewis Index have been calculated to check the fitness of the model. All the values of goodness of fit measures are above 0.90 which shows structural model has a good fit.

## Findings and Conclusion

Demonetization, a sudden move by the BJP Government, shook the whole Indian economy in November, 2016. Although, this is not for the first time in Indian history that demonetization took place. It happened in 1946 and 1978, but, at that time, circulation of high denomination currency notes were not that high. But in November 2016, as per RBI data, 86% of the currency in circulation was in high denomination currency notes. So, it was a huge push back to Indian economy. Banks were closed for two days after the announcement of demonetization. Sensex slid to six month low, GDP fell down by two basis points. Govt. started facing criticism because banks did not had enough money to meet daily requirements of people. But, gradually, things got better, more cash was made available with banks, cash withdrawal restrictions were removed. People started using debit cards, credit cards, e-wallets, etc. The massive electoral victory of BJP in recent elections held in Uttar Pradesh, Gujarat and Himachal Pradesh shows that people have now started supporting this decision.

The objective of the research was to explore the benefits of demonetization perceived by people as well as to identify the major factors determining positive attitude towards demonetization. Variables measuring benefits of demonetization were factor analyzed through exploratory factor analysis and it extracted four factors namely, financial inclusion, improved national environment, less cash economy, and improved consumption & investment pattern.

The most influential factor is less cash economy followed by financial inclusion. People have perceived demonetization as a positive move now as it has led India on the way to less cash economy. This will lead to convenient transactions, less leakage of money flow at various levels, better tax collection, and lesser black money ultimately leading to financial inclusion. Improved consumption, investment pattern, and financial inclusion have also been found as determinants of positive attitude towards demonetization. People, keeping in mind these perceived benefits, are developing a positive attitude towards demonetization. But results also showed that people had not perceived improved national environment

as perceived benefit of demonetization. Demonetization was induced in economy to improve national environment by targeting terrorism, corruption, reducing black money, fake currency, etc. But as per the results, these benefits have not been perceived by the public. Therefore, there is a long way to go and better strategies must be developed to improve national environment.

### Scope for Future Research

The research study was conducted in Punjab to analyze the perception and attitude towards demonetization. Although many important findings came into light after the study, but the study did suffer from some limitations which can provide scope for further research as follows:

- The data have been collected from the state of Punjab. Situational differences can have impact on the outcome of the study. Thus, data from other states can also be taken for comparison and further explorations.
- The sample of the study is mainly comprised of salaried class and professionals. Future research can be done by studying the perception of businessmen towards demonetization.

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