



INTERNATIONAL RESEARCH JOURNAL OF HUMANITIES AND INTERDISCIPLINARY STUDIES

(Peer-reviewed, Refereed, Indexed & Open Access Journal)

DOI : 03.2021-11278686

ISSN : 2582-8568

IMPACT FACTOR : 5.71 (SJIF 2021)

Impact of Demonetization (An Event Study of Some Select Global Indexes)

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DOI No. **03.2021-11278686** DOI Link::<https://doi-ds.org/doilink/08.2021-35364473/IRJHISICPC210841>

Abstract:

Demonetization is the act of removing currency from the circulation. It is a method to manage black money in the economy by decreasing the cash circulation in the country that is directly related with the corruption. It directly or indirectly affects the various sectors. The effect of taking out so much money from the market is certainly influencing the various sectors in the economy that are driven by the black economy like real estate, construction, etc. But this step of the government has also influenced those sectors which are driven by cash transactions because they are the first businesses which are affected when suddenly so much money is stopped from circulation. This research paper is trying to analyze not only the impact of demonetization on Indian Stock Market but also emerging stock markets. Many countries have attempted demonetization, some successfully and some unsuccessfully, but all of them were done when their economics were having major problems like hyper inflation, these are varied opinions amongst economists on what the impact will be in future and whether it will impact the stock market rigorously. So the sample of the study has been drawn from the period of 30th October 2016 to 21st November 2016. This interested event study is the announcement of demonetization of all 500 and 1000 rupee notes by the Government of India on 8th November, 2016. The event study has chosen as -10 through zero to +10, where zero represents the demonetization date and -10, and +10 are the period before and after the announcement date. This paper focuses on an Event Study to analyze the stocks of global indexes. The result from the comparison of both pre and post-event study found that there is significant impact of demonetization on the global indexes.

Keywords: Demonetization, Global Indexes, Event Study, Market Reaction.

Introduction:

Demonetization is the Process of removing currency from general usage, or circulation is known as demonetization. The central government has taken the initiative of demonetization of 500 and 1000 rupee notes In India on 8th November 2016. Our economy is the cash based economy in which 90% of the transactions take place in cash only. The recent sudden move to demonetize Rs

500 and Rs 1,000 currency notes is not new in India. Rs 1,000 and higher denomination notes were also demonetized earlier in January 1946 and again in 1978. The highest denomination notes of Rs. 10,000 were printed by the Reserve Bank of India in 1938 and again in 1954. As per RBI data, these notes were demonetized again in January 1946 and again in January 1978. To verify the undisclosed black money, corruption and fake currency, Government of India has announced the demonetization of high denomination currency notes of Rs 500 and Rs1000 on the 8th November 2016. A newly redesigned series note of Rs 500 and Rs 2000 is in circulation since 10 November 2016. It is also found that impact of demonetization is temporary; it will recover soon once normalcy is attained. Since November eight no major events have been taken place in the industry that could guide the stock prices. Inflation was stable, and RBI policy has remained unchanged. The rupee has declined, but this is more on account of the dollar strengthening. Foreign Portfolio Investor flows have turned negative during this period as both equity and debt segments witnessed net outflows. In this research study, the article is trying to analyse the impact of demonetization on the stock markets. For the same, a study has taken emerging stock markets and used an event study of some global stock indexes.

The one major event is considered for the study, the day when demonetization is announced i.e. on 8th November 2016. And the impact of demonetization has been seen from 30th October, 2016 to 21st November, 2016. On 8th November 2016, PM Narendra Modi announced the cancellation of Rs. 500 and 1000 notes that resulted in 86% of the circulated money was removed from the economy overnight. As demonetization affect every sector of the economy, but here this article trying to analyze the impact of demonetization on the stock markets. Hence this paper focuses on how various emerging and global stock markets reacted and behaved towards the impact of demonetization.

Objectives:

- To examine the global markets reaction towards demonetization impact
- To analyse the impact of demonetization towards emerging markets

Research Methodology:

Types of research:	Descriptive
Data	Secondary
Sampling technique	Non-probability (Judgmental sampling)
Sampling size	7 Global Indexes
Statistical tool	CAPM
Scope (sample):	Global indexes, Emerging markets

Literature Review:

Veera kumar, K (2017) broke down the effect of demonetization on the open observation. The investigation discovered that sex, age, occupation and yearly pay have noteworthy effect relationship with demonetization. The examination additionally discovered that demonetization will wipe out dark cash, corruption and psychological conflict.

Mahajan, P., and Singla, A. (2017) inspected the impact of demonetization on budgetary incorporation in nation. The investigation examined demonetization impacts on common individuals, casual parts, NBFCMFIs, MSMEs and E-wallet organizations. The discoveries of the investigation demonstrate that common individuals were the most influenced.

Bansal, C. J. (2017) dissected the effect of demonetization on Indian economy. The investigation broke down the effect on assembling, administration and horticulture part. The outcome demonstrated that just farming division develops emphatically while assembling and administration segments were damaged.

Kaur M (2017) has dissected the effect of demonetization on the cashless installment framework. The think about found that rising utilization of charge cards, check cards, internet banking and other online installment exchange was because of demonetization.

Mahajan, P., and Singla, A. (2017) analyzed the impact of demonetization on budgetary consideration in nation. The examination investigated demonetization consequences for customary individuals, casual segments, NBFCMFIs, MSMEs and E-wallet organizations. The discoveries of the examination demonstrate that common individuals were the most influenced.

Prof. Babitha Rohit (2012) analyzed the offer value developments of organizations recorded in BSE which declared that the extra offers in 2010 and 2011. Utilizing Event think about procedure it infer that extra declarations results to irregular returns for the speculators.

S. Vanitha (2013) examines the effect of invert repo rate (RRR) and money save proportion (CRR) with occasion think about strategy. It demonstrated that share cost of banking organizations recorded in NSE responds to the RRR and CRR. Also, plainly Indian Stock Market responds to RBI announcement data right away.

DR.BALAMURGANA, B. K. HEMALATH: This sector would reflect the impact of demonetization of the old notes by the administration on event day. The elastic market, as of now in the depression because of elements like fall in value and collapse of a pair of noticeable elastic showcasing social orders, has been managed a serious blow by demonetization. The household elastic market reel under the effect of demonetization has not picked up anything from the ascent in the costs in the universal market which have hit a three-year high. The tight supply-request circumstance, desires for further firming up of raw petroleum costs and light interest from China

have helped in scaling up the costs in the worldwide markets. The most recent figures from vehicle division are sufficiently also painful for elastic cultivators in the nation. Normal elastic is utilized more in the tires of business vehicles. Because of the demonetization business vehicles sales is somewhere near 11.58 percent in November this year. Which means diminish utilization from the industry?

Mr. Sunil and Ms. Smitha (IJRFM May 2017), the creators were of the assessment that the effect of demonetization on financial exchange is transitory because of their experimental investigation on chose divisions. It was a significant milestone step taken by the Government of India, however demonetization occurred in India on earlier 2 events, once in 1946 and after that in 1978, and as of late in 2016, the objective being to battle tax avoidance by "dark cash" coursing in the parallel economy of the country. As on October 2016, the all out cash available for use in India was \$280 billion. Regarding esteem, RBI expressed the all out cash available for use was \$260 billion in incentive as on March'2016, about 86% of cash available for use was of Rs.500 and Rs.1000 notes.

Gupta (2017) attempted to recognize the issues handled by the confined in recovering financial administrations and its adequate courses of action were finished for the confined amid the demonetization organize. The ongoing phase of the administration of Indian to bit the cash notes of Rs. 1000 and Rs.500 as an allowed delicate on November eighth, 2016 had a huge impact on Indian masses. 50 Scheduled banks were plotted for the investigation and banking officers from a few open banks alongside private banks were equally addressed.

Sivan kutty (2017) featured the outcome of demonetization Patil, Parab and Reddy an empirical effect on the global Stock Market continuing GDP and the contribution to various zones in GDP. By an assessment to limit capital of psychological warfare and activities, for example, observation, running of weapons, drugs and additional illicit imports to India and expelling dark money, it has been clear to drop the approved delicate appeal of incredible group notes of Rs.500 and Rs. 1000 character issued by RBI. At the opening there raised a negative effect on the various zones of the financial plan which caused lesser development. Reports from various sources through the nation suggest that each territory and setting they critically misused. Independently from this data presently at the finale of this monetary year, the nation showed a development of 7.1%. This paper clarifies the impact of such an exchange on the GDP and investigation of certain information's in a exact.

Samuel and Saxena (2017) considered the brief time frame and extensive stretch impacts of demonetization with notice to the distinctive divisions of Indian economy. It additionally ponder regardless of whether demonetization will be engaged with expelling the dark cash from Indian

economy which is the key target after cash switch. It is estimated to have concentrated the nation's GDP, unfortunately strike the money serious segments, certain divisions of the country in particular agribusiness zone, little shippers, residential are confronting brief time aggravations because of absence of dark money and so forth. Other than degenerate applies, running of weapons, the supply of dark money will diminish and so forth. It tends to be expected that demonetization assurance makes money emergency and liquidity emergency making an issue the general open in brief time, up till now its goals is appeared to be useful to the financial help in long stay running on view point's like government salary, the ascent in credit, little plot charges on home loans, and rot in inflationary power.

Shahid Mahmood (2011) investigates the impact of money paid as profit on offer costs in Karachi Stock Exchange (KSE). An example of 100 organizations which declared money profit amid the time of 2005 to 2009 was broke down utilizing occasion examine strategy. The result infers that diverse sort of market demonstrate for figuring irregular return give comparable patterns. And furthermore, it indicates positive criticalness for money profit declarations.

Thomas J. Hwang (2013) investigated the effect of clinical preliminary outcomes on demonetization offer cost Conduct utilizing instance reflect about the approach. It demonstrates that arrival of clinical preliminary outcomes have significant consequences on the stock market for offer value estimation of biomedical and pharmaceutical organizations of US. The negative return shows the underperformance of stock return while the positive return shows dynamic huge return.

Paul Quaisie Eleke-Aboagye and Ebenezer Opoku (2013) it tried to the effect of profit declaration on offer that shas value returns on the Ghana Stock Exchange. The adjustments in the offer cost were dissected utilizing 10 test organizations with occasion think about technique. The income declaration has no effect over GSE, as the outcomes was not so huge.

S. Ramesh and Dr. S. Rajumesh (2015) they analyze that response of Colombo stock trade to the political occasions was negative due to the effect of demonetization. An example of 40 political occasions was investigated by occasion think about strategy. The outcomes show the negative return based on the importance of market and political occasion. In this way the speculators can't acquire extraordinary return by putting wealth into the stocks amid the occasion.

Dr. S. Sathyanarayana and Prof. Sudhindra Gargasha (2016) utilizes occasion ponder technique to explore the effect of Britain's choice to leave European Union i.e., BREXIT submission on both the Indian records NIFTY 50 and SENSEX. GARCH show was utilized to test its changeability. The investigations demonstrate a significant effect on the occasion day they found that the unpredictability of both the records was not critical.

Bharadwaj, (May-June 2017), contemplated the effect of the demonetization on the 16

organizations from the National Stock Trade. Taking the 16 organizations based on arbitrary testing. The investigation found that there is no relationship in the organizations which have landed previously, then after the fact demonetization, so there is an effect of the slander on the Indian Stock Market.

Kaushik, et al., (June 2017), broke down the effect of the demonetization on the S&P BSE 100. This exploration examine that there is no huge effect of the demonetization on the S&P BSE 100. There is an effect for the shorter term however soon they recouped it.

Gupta and Kundu (2006) examined the effect of global stock market considering the income are unpredictability in Sensex. The creator found that demonitisation have most extreme wave in momentary position in spending period, when contrasted with medium term and long pull normal returns are unpredictability.

Index	BSE	STI	SSE	KSE	LSE	NYSE	NSE
Day	Abnormal Returns						
-10	-0.699038707	-1.554781572	-2.05528899	1.564326149	-0.520936402	-0.286444274	1.290981756
-9	-1.295386972	-0.171866758	-1.683469109	0.602748722	-0.387305975	-0.614811698	0.618640584
-8	-0.102753086	-1.214743258	-1.81594781	3.959995024	-0.391261126	-0.498618959	1.493651304
-7	-0.296218724	-0.520298814	-1.678040218	2.835790219	-0.536518142	-0.55524115	1.75771793
-6	-0.620228629	-0.520298814	-0.848572787	0.562846179	0.418237559	-1.032411123	1.357624446
-5	-1.64129623	-0.869949163	-2.187352137	-0.407963128	-0.718827065	-0.88133404	0.192390617
-4	-0.740121931	-0.520298814	-0.711816823	-0.133207797	-1.373743666	-0.613201508	1.15245087
-3	-0.957140845	-0.871176007	-1.672001201	-1.500135918	-1.072117516	-0.688305532	0.890227668
-2	0.289754411	0.183926538	-1.299844801	2.163323797	2.309012455	1.623882872	2.244204795
-1	0.093308253	0.179001885	-1.091815284	0.793223158	-0.845448907	-0.05133162	2.040900068
0	-1.61520289	-1.909187703	-2.176363531	1.266666858	2.289332106	0.949695067	0.18799022
1	0.584982335	0.88815189	-0.18463402	0.5436050722	2.893595788	0.721831235	2.605487167
2	-2.927630384	-0.867521036	-0.775515699	1.41723264	-1.890315181	-0.240388126	-1.197609817
3	-2.305227277	-1.565594981	-1.10805681	-0.134260694	0.632882568	-0.340316364	-0.77060643
4	-0.410543236	-0.168186138	-1.661774243	1.338817547	0.99537772	-0.163736354	1.532498469
5	-0.658199106	-0.520298814	-1.616490546	0.922127148	-0.422377289	-0.742118952	1.103470543
6	-0.682984647	-0.169421621	-1.450376974	1.959290026	1.201832512	-0.26279129	1.421248667
7	-1.860599036	0.179001885	-2.042454184	-3.051342365	0.45406656	-0.641750581	-0.302214467
8	0.37135905	-0.520298814	-0.764191187	3.136669215	-1.599437916	0.018535155	2.416829295

9	-0.037307174	-0.520298814	-0.617778987	2.036523702	0.600703968	-0.097506344	1.881039939
10	-1.123569776	-100.5202988	-1.778449741	0.018764466	-0.24587483	-0.140122363	0.649666807

Findings:

The effect of demonetization on the stock market has a negative effect on event day

- it shows -1.615 & on +1days is 0.584 effect on the BSE
- it shows -1.909 & on +1days is 0.888 effect on the STI
- it shows -2.176 & on +1days is -0.184 effect on the SSE

The effect of demonetization on the stock market has a positive effect, on event day it

- shows 1.266 & on +1days is 0.5436 effect on the KSE
- shows 2.289 & on +1days is 2.89 effect on the LSE
- shows 0.9496 & on +1days is 0.7218 effect on the NYSE
- shows 0.1879 & on +1days is 2.605 effect on the NSE

Suggestions:

BSE, STI, SSE stock is better to sell because these have negative returns on the investment and KSE, LSE, NYSE, and NSE stock is better to invest in the market because these have positive returns on the event date.

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