

**IMPACT OF DEMONETISATION ON CONSUMER BEHAVIOUR-A  
STUDY IN HANUMAONDA**

**STUDENT STUDY PROJECT  
2019-20**

**By  
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## **ACKNOWLEDGEMENT**

*The Student study project entitled “**IMPACT OF DEMONETIZATION ON CONSUMER BEHAVIOUR- A STUDY IN HANUMAKONDA**” was carried out by B.A.II year of students of kakatiya Government College Hanamkonda under supervision Dr. G. Shyamu Asst. Professor of Economics.*

*We are grateful to the Commissioner of Collegiate Education and the Principal Dr P. Venkateshwarlu and Dr. B. Nainadevi Asst. Professor of Economics their encouragement and support. We have received strong support from the concerned officials of Department of Agriculture and other concerned departments of Telangana state. Special thanks to our colleagues in the College for their constant support.*

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# **IMPACT OF DEMONETIZATION ON CONSUMER BEHAVIOUR**

## **Introduction:**

In India the Government has taken up the policy of demonetization recently to curb black money and terrorism. The recent debate of Government regarding the demonetization of the High value Currency which is aimed at removing the black income impacts the whole fabric of the Indian economy with a sudden shock by decreasing the cash flows of the economy which sets back the circular flow of income in the economy. People are postponing their necessities in anticipation of regular cash flows as usual in the future which affects the consumption flow which may affect the production as well in the near future.

The recent demonetization which was originally introduced to scrap out the black money has too many spill-over effects in the economy particularly cashless economy which comes as a sudden surprise to the business sector which mainly depends on the regular flow of current income which is the basis for their business. According to macro economics we know that the Consumption depends on income and other macro economic variables impact like Investment, Production and Employment are all interdependent. Now that we have got reduced cash flows in the economy, we have to study its impact on the interdependence of these macro economic variables.

The debate is going on related to the demonetization in the short run related to its effects of the economy. It is intended to decrease the black money but it is a surprise to the Corporate households since it hampers the day to day cash transactions and also a limit is imposed to daily exchange of notes.

The GDP formation could be impacted by this measure, with a reduction in the consumption demand. However, with the recent rise in festivals, demand is expected to offset this fall in an overall impact. Moreover, this expected impact on GDP may not be significant as some of this demand will only be deferred and will re-enter the stream once the cash situation becomes normal.

The basic objective of the demonetization is eliminating Parallel economy which increases the prices of the products due to heavy demand pressurizing the scarcely available goods. There is also a threat of Counterfeit notes entering from neighbouring economies which further increased the pressure of inflation. The common man is suffering due to the high prices of the commodities and the salaried class is caught in the Inflation spiral. It will temporarily block the supply of high value currency and this way positively impact in curbing the disruptive groups in the form of terrorism, smuggling, fake notes, Naxalism etc.

The extra circulation of income leads to high prices of the commodities and the salaried class are caught in the Inflation spiral. This also shows the Tax net where it is mainly salaried class are paying taxes and the Corporate houses finding ways and means to evade the taxes.

## **Objectives:**

- 1) To study the impact of demonetization on Consumption patterns.
- 2) To study the awareness of Consumer on Cashless transactions.

## **Research Methodology:**

The survey is conducted in warngal town town to study the impact of demonetization on Consumer behavior . In order to study the impact we have taken 100 samples from across the town. We have used the Simple Random Sampling for the purpose of the Questionnaire. After collection of date we have used the impact by studying the tables, diagrams, charts etc to know the behavior of the consumers.

### **Review of Literature:**

The review of literature in this field is very limited due to the recent demonetization is a new concept. But we have taken up some review of literature in the field of Consumer behavior so that what will be the factors that affect the Consumer behavior during various situations.

The consumer behaviour is studied as a part of the marketing and its main objective it to learn the way how the individuals, groups or organizations choose, buy use and dispose the goods and the factors such as their previous experience, taste, price and branding on which the consumers base their buying decisions (Kotler and Keller, 2012).

Backhaus et al (2007) suggested that purchase decision is one of the important stages as this stage refers to occurrence of transaction. In other words, once the consumer recognized the need, searched for relevant information and considered the alternatives he/she makes decision whether or not to make the decision. Purchasing decision can further be divided into planned purchase, partially purchase or impulse purchase as stated by Kacen (2002).

Situational factors impacting consumer behaviour may include location, environment, timing and even weather conditions (Hoyer et al., 2012). In order to benefit from situational factors major retailers attempt to construct environment and situations in stores that motivate perspective customers to make purchase decision. Range of available tools to achieve such an outcome include playing relaxing music in stores, producing refreshing smells in stores and placing bread and milk products in supermarkets towards the opposite end of stores to facilitate movement of customers throughout the store to make additional purchases etc.

The temporary nature of situational factors is rightly stressed by Batra and Kazmi (2008). Personal factors, on the other hand, include taste preferences, personal financial circumstances and related factors. The impact of personal factors on consumer decision-making is usually addressed by businesses during market segmentation, targeting and positioning practices by grouping individuals on the basis of their personal circumstances along with other criteria, and developing products and services that accommodate these circumstances in the most effective manner.

According to Hoyer et al. (2012) social factors impacting consumer behaviour arise as a result of interactions of perspective consumers with others in various levels and circumstances.

Targeting members of society perceived as opinion leaders usually proves effective strategy when marketing products and services due to the potential of opinion leaders to influence behaviour of other members of society as consumers.

A number of researches have been carried out by academics and scholars on identifying and analyzing those factors affecting the consumers' buying behaviour and as a result, various types of factors have been identified. These factors have been classified into different types and categories in different ways by different authors. For instance, Wiedermann et al (2007) classified them into internal and external factor. On the other hand, Winer (2009) divided them into social, personal and psychological factors. Despite the fact that they have been classified into different groups by different authors they are similar in scope and purpose (Rao, 2007). There is a wide range of factors that can affect consumer behaviour in different ways. These factors are divided by Hoyer et al. (2012) into four broad categories: situational, personal, social and cultural factors.

## Results and Discussion:

**Table 1: Amount Spent on Groceries**

GROCERIES ( in Rs.)	NO. OF RESPONDENTS	NO. OF RESPONDENTS
2000	20%	22%
3000	37%	28%
4000	43%	35%
5000	20%	15%

In the above table it is shown that the number of respondents who are having Rs.2,000 of Consumption on groceries have increased from 20% to 22% where as there is much change in the Rs.4,000 group where they have shown the fall in consumption to Rs. 3,000. (35 % and 28% respectively). But the amount of groceries can be decreased in the short-run due to the low limit of withdrawals which is temporary. But the all round effect of the demonetization may be seen on the reduction in IIP index which is due in Quarter4 which is yet to come. The reduction in consumption will have an effect on whole sale Production also.

It has been observed that due to the amount of withdrawl ranging from Rs. 2,000 to Rs. 4,500 in the ATMs by the consumers there is an increase in the number of visits by the consumer to the banks due to uncertainty in the amount and long queue lines which causes exhaustion and the postponement of the withdrawals. Before demonetization there was a limit of 5 withdrawals but the consumer could withdraw upto Rs. 40,000 per withdrawl. But now it is only upto Rs. 4,500 per withdrawl . Most of the cases due to emergency they are visiting even 9-10 times in a month

to continue the same level of consumption as previous. It is also observed the most respondents have showed inconvenience (80% of the respondents)

**Table 2: Amount Spent on FMCG Goods**

FMCG(RUPEE S)	NO. OF RESPONDENTS
1000	20%
1500	53%
2000	7%
2500	10%
3000	10%

**Table 3: Awareness among the Customers regarding Cashless transactions**

Cashless Instruments	Percentage of Respondents
Net banking	12%
Debit Cards	52%
Cheques	32%
UPI App for payments	09%

From the above table it is evident that the awareness of customers regarding cash less transactions is very low which is shown in the results where only 12% of them know about Netbanking transactions, Debit cards 52%, Cheques 32% and UPI App for payments 9 % only. There is a need for rising awareness among the customers.

**Table 4: Savings due to Demonetization**

Change	Percentage of Respondents
Increased	69%
Same	31%

From the above table it is shown that Compulsory savings have increased to 69% of the customers due to banking and low withdrawal limits where as 31% of them are saying that the savings remained constant. Whatever is saved is not consumed, it shows that the Savings will result in investment which leads to increase in Capital accumulation of the economy. It is having a positive impact on the economy.

***Table 5: Fuel Consumption***

Change in Fuel consumption	Percentage of respondents
Decreased	32%
Same	68%

From the above table it is evident some respondents (32%) have decreased their fuel consumption due to the demonetization effect. The usage of fuel is need-based so there is not much of decrease in the fuel consumption.

### **Impact on banking sector:**

This demonetization move will attract huge deposits of high value currency in banks by way of deposits. The unearthing of currency which was otherwise resulting in the black economy into formal banking stream is a positive sign for banks by reducing dependence on higher cost borrowing. The liquidity position of the banks improves which results in cheap lending rates. But the deposit rates may become lower in the short-run. But for NBFCs asset quality of lenders with dependence on cash collection gets affected in the short term.

Across the medium term, the demand for real estate, especially in the secondary market i.e. Resale Transaction and Tier-II cities where the cash component, as a proportion of transaction is significant could face a slowdown. This trickle-down effect could encompass the entire real estate sector putting pressure on the demand itself. This could adversely impact NBFC's & housing financiers with a large proportion of exposure Mortgage built with a self-employed customer profile. We believe that Micro Finance Institutions and Small Finance Banks (SFB's) may not be significantly impacted in the long term, considering that the cash flows of the borrower segment are usually in the smaller denomination. However, there could be near term disruptions in the collection cycles along with a spike in over dues, which could put their liquidity strengths and the disbursal cycles under pressure.

The Demonetization has affected the Production and hence the total output of the economy which results in the overall contraction of the economy. The Industrial production in India went up 0.7 percent year-on-year in September of 2016, following two straight months of falls (-0.7 percent in August and -2.5 percent in July). The sudden blow to the Production sector may bring it down to negative mark again.

The Economic growth which is measured by GDP also gets affected because of this demonetization move. There is an expectation of above 7% in the last quarter by the various rating agencies, but if the last quarter production gets affected it may have an effect on Economic growth also.

The demand for Bullion sector in the short-run boom in the bullion sales with the customers parking their extra funds in this sector. The Gold sales were done with an extra premium in the short-run due to the exchange of old notes. But in the long run the demand for gems and jewellery may decline in the future. But for the small business men and unorganized sector there is a hit in the short run due to less cash flows from small buyers. Regarding gold exports there may not be any impact due to organized channel but unofficial gold imports may reduce.

The impact on grocery retail sector may not be so much but its impact on small retailers is high since they depend on cash payments for purchase and sales of the commodities. Demonetization affects the Conspicuous consumption i.e, high end retail and luxury goods. The Customers are postponing the buying of retail goods in bulk due to expectations of regular cash flows after the set right of the economy to normalcy.

The unexpected decline in cash flows and short-term savings due to Speculation about the situation unfavorably impacts the consumption demand in the economy. Besides a fall in Construction activities in the short term will impact may lead to lowering of GDP growth. The manufacturing sector which is measured by IIP index for Q3 FY 2016-17 may be hampered due to the halting of various manufacturing activities. The business households think that the fall in the Consumption may lead to further decrease in off-season sales i.e., November and December. This affects their initiative in new investment and fall in Production since the Old inventories and Stocks pile up as an immediate effect of fall in Consumption.

The employment gets affected by the decrease in Consumption of goods and decrease in Production and hence a decrease in the demand for labour. Already in states like Uttar Pradesh huge loss of jobs were reported and the aftermath results are yet to come from other States. In some places it is also reported that the employers are paying from Old exchange notes for two months as advance salary. But the decrease in Production has an adverse effect on the employment that depends on daily labour and depends on daily wages as remuneration. The construction sector received a setback in the short-run.

The retail business also got affected since the Consumer wants to hold the cash towards precautionary and transactionary motives. Either the consumer postpones the consumption or goes to big retail shops and buys it with debit card. Some big shops are accepting the debit cards. The limit of daily exchange of notes imposed on the retail business people and the consequent long queue lines also discourages them from accepting the exchange of old notes for daily transactions.



## **Impact on Consumption Sectors**

The real estate demand from end users is unlikely to be impacted, since a majority of them are backed by funding from bank loans. Demand from investors for real estate however may come down since in some cases, investors prefer cash transactions. If the proportion of earlier transactions in the real estate sector, which were allegedly done through partial cash payment reduces, the registered prices for real estate will go up. We expect the supply of real estate in the secondary market, which is strongly rumoured to have a large cash component involved, to suffer in the short term, which may in turn improve demand for residential real estate in the primary market. In the medium term, the prices in this sector could regain on many fronts as developers rebalance their prices (probably charging more on cheque payment).

Real estate sector which has linkages with Cement and Steel sector will get affected in the short run due to irregular cash flows. But once the economy comes to normalcy regarding the currency availability there will be resuming in Construction sector. Besides the daily wage employees in the Construction sector may receive a set back with the payments.

## **Conclusion:**

We can conclude that due to demonetization it is observed that there is a drop in the amount of groceries and FMCG due to short-term policies of the government like low limit withdrawal of demand deposits and long waiting lines near the bank. It is observed that both the objectives of government would not have taken at the same time. There must be a time limit for both the actions. The Consumer awareness about the cashless transactions is low due to various reasons. One of the positive impacts of this demonetization is increase in number of bank transactions and bank money in the economy which will result in low deposit rates of loans from the banks. The Circular flow of income has started in positive direction instead of parallel economy.

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**Appendix**  
**IMPACT OF DEMONETIZATION ON CONSUMER BEHAVIOUR IN WARANGAL DISTRICT**

NAME:  
AGE:  
OCCUPATION:  
INCOME:  
GENDER:  
EDUCATION:  
MARITAL STATUS:

1)How many times you have to visit the bank for withdrawing money needed by you for a month:  
a)1-2 times b)3-4 times c)5-6 times d)7-8 times e)9-10 times

2)How many times you have to visit the bank for withdrawing money needed by you for a month:  
a)1-2 times b)3-4 times c)5-6 times d)7-8 times e)9-10 times

3)When compared to earlier ( before Demonetization) was it convenient for you to draw the money from the banks:

Yes/ No

4) How much percentage of income do you spend for consumption before Demonetization: Yes/No

5)How much Percentage of money you spend for Consumption after Demonetization:  
a) 10% b) 20% c) 30% d)40% e)50%

6) The percentage of Income you save after demonetization:  
a)10% b) 20% c) 30% d)40% e)50%

7)The percentage amount spent on FMCG goods for Consumption after demonetization:10%  
a) R.1,000 b) Rs.1500 c) Rs.2,000 d)Rs.2,500 e)Rs.3,000

8) The Percentage amount spent on Groceries for consumption:  
a)Rs. 2000 b) Rs.3,000 c) Rs.4,000 d)Rs.,5,000

9) What is the reason for reducing the Consumption recently:  
a) Recession  
b) Long ATM queue lines  
c) Government quick decisions regarding demonetization  
d) difficult to withdraw money

10) Have you made any cashless payments recently: Yes/No

11) Do you have net banking : Yes/No

12) Do you use Debit Cards: Yes/No

13) Do you use Cheques: Yes/No

14) Do you use any Smart phone UPI App for payments: Yes/No

15) Was there an impact on your Groceries consumption due to Demonetization: Yes / No

16) Was there any impact on your fuel consumption due to demonetization: Yes / No

17) Was there any impact on your garments purchasing on demonetization: Yes / No

18) Was there any impact on your Gold or Silver purchasing on Demonetizaion: Yes / No

19) Was this demonetization worth the effort by the Government to curb Black money: Yes / No

20) HOW MUCH MONEY YOU SAVE BEFORE DEMONETIZATION:

a)10% b) 20% c) 30%d)40% e)50%

Suggestions:

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**Signature**