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**AN OVERVIEW OF DEMONETIZATION IN INDIA AND ITS IMPACT  
ON THE BANKING SECTOR OF JAMMU AND KASHMIR STATE**

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**ABSTRACT**

*Demonetization is a device to encounter the Inflation, Black Money, Corruption and Crime, depress a cash dependent economy and to assist the trade. Demonetization is the mainly central and essential when there is an alteration of national currency. The previous component of currency must be distant and substituted with a new currency component. The currency was demonetized for the first time in 1946 and second time in 1978. The prevalent beneficiaries of demonetization are Banks. Demonetization was announced by Honorable Prime Minister of India on 8, November 2016; The government of India has taken a gallant step to demonetize the 500 and 1000 Rs (fully ban). These two biggest currency notes are denominated as accounted 80 per cent of the currency supply. These currency notes have inclined all almost all the corners of the economy. The actual picture of India will absolutely change and the Indian economy will emerge as one of the strongest economy in the world and in a medium to long time only as forecasted by the Prime Minister of our country.*

**Keywords:-** Demonetization, Inflation, Banks, Currency, Black Money, Corruption, Crime, India.

**INTRODUCTION**

On 8th November, 2016, the Prime Minister of India announced that 2 units of Indian currency notes Rs. 500 & Rs. 1000 denomination are no more legal tender in India. Demonetization is a major monetary step in which a currency unit's status as a legal tender is affirmed as worthless. In India's case the government has taken a gallant step to stop the hazard of black money, fake notes by dipping the amount of cash available in the organization account of demonetization in India. Demonetization was first implemented in India in 1946 when RBI demonetized circulation of Rs 1000 and Rs.10000 notes. The Government then introduced the higher denomination bank notes in Rs.1000 Rs.5000 Rs.10000 in 1954 before Moraji Desai govt demonetized these notes in 1978. Demonetization in recent instant On Nov 8 evening Prime Minister Narendra Modi, in his televised tackle to the nation , made Rs.500 and Rs 1000 notes are worthless, and saying that it was intended at cutting the bug of corruption and black money which have taken deep root and new notes of Rs 2000 and Rs 500 were introduced. There was no alteration in the form of currency exchange be it cheque, DD payment via credit or debit card etc.

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Demonetization is the mainly central and essential when there is an alteration of national currency. The previous component of currency must be distant and substituted with a new currency component. Demonetization is a way where government declares the presently running currency notes are illegal and to be tender after the announcement is made. The main reasons for the demonetization are to control the fake notes that could be contributing to the violence, and to challenge or eradicate the “black economy”. There are a few potentially ways in which the pre-demonetization money supply will stand distorted:

- There would be agents in the economy who are holding cash which they cannot explain and hence they cannot deposit in the banking system. This part of the currency will be extinguished because it would not be replaced in any approach.
- The government may desire to put back only a part of the currency which was in transmission as a cash form. In other words, the rest would be accessible only as electronic money. This could be as a apparatus and used to force a changeover to cashless medium of exchange.

### **HISTORY OF DEMONETIZATION IN INDIA**

It is not for the first time in the Indian history, that the government has taken a gallant step. It has been occurred twice in the history. The first currency ban was announced as on 12th January, 1946(Saturday) by RBI headquarter. At that time currency notes of 1000 and 10,000 were totally detached from the economy. Both these notes were re-introduced in the year 1954. For that time people had given a time period of 10 days to replace these notes. Further that was extended to 15 days more where by people has to give reasons why they had not exchanged it in previous 10 days. It had not twisted much effect for that time. At the end of 1947 out of Rs.143.97 crores, notes of only Rs. 134.9 crores were exchanged. Thus notes worth Rs. 9.07 were conceivably “Demonetized”.









Secondly the currency ban was made on 16th January, 1978 (Monday), announced by R. Janaki Raman a senior official of RBI, and at the time of Moraji Desai led Janata party. At that time currency ban was taken 1000, 5000 and 10,000 out of circulation. For that time the people had given only 3 days to replace the notes. This time nearly about 73.1 crore was demonetized.

Finally the freshest demonetization had been announced as on 8th November, 2016 by Prime Minister Narendra Modi. This time the currency of 500 and 1000 notes are demonetized from economy. The Government had given a complete set of instructions to the hospitals, petrol pumps, airports etc to accept the old denomination notes till 11th November, 2016.

On 28 October 2016 the total banknotes in circulation in India was Rs.17.77 trillion (US\$260 billion). In terms of value, the annual report of Reserve Bank of India (RBI) of 31 March 2016 stated that total bank notes in circulation valued to Rs.16.42 trillion (US\$240 billion) of which nearly 86% (around Rs.14.18 trillion (US\$210 billion)) were Rs.500 and Rs.1,000 banknotes. They were taken out of circulation from 2016.

### **INDIA: BEFORE DEMONETISATION**

In India, money is used with ten different values as listed below:

				
50 Paise Coin	1 Rupee Coin	2 Rupee Coin	5 Rupee Coin	10 Rupee Coin
				
20 Rupees	50 Rupees	100 Rupees	500 Rupees	1000 Rupees

#### 4 NEW CURRENCY NOTES AFTER DEMONETIZATION



**A. Rs. 500, According to the RBI:** The size of the Rs 500 Note is 63mm x 150mm, colour is stone grey with Red Fort and Mahatma Gandhi's image on each side.

#### Features:

1. See through register in denomination numeral.
2. Hidden image of the denomination numeral.
3. Denomination numeral in Devanagari.
4. Orientation of Mahatma Gandhi's portrait changed.
5. Windowed security thread changes from green to blue when note is tilted.
6. Guarantee article, Governor's signature, RBI sign shifted towards right.
7. Picture and electrotpe watermarks.
8. Number panel with numerals growing from small to big on top left and bottom right sides.
9. Denomination in numerals with Rupee symbol in colour changing ink (green to blue) on bottom right.
10. Ashoka pillar symbol on right.

**B. Rs. 2,000, According to the RBI:** The size of the Rs 2,000 Note is 66mm x 166mm, colour is magenta and Mahatma Gandhi's image on each side.

**Features:**

1. See through register where the numeral 2,000 can be seen when note is held against light.
2. Latent image of 2,000 can be seen when the note is tilted.
3. Devanagari denomination.
4. Portrait of Mahatma Gandhi.
5. Micro letters 'RBI' and '2,000'.
6. Colour shift security thread with 'RBI' and '2,000'.
7. Guarantee clause, Governor's signature and RBI emblem on the right.
8. Watermarks of Mahatma Gandhi and electrotype 2,000 numeral.
9. Number panel with numerals growing from small to big on top left and bottom right sides.
10. Denominational numeral with Rupee symbol, 2,000 in colour changing ink.
11. Ashoka pillar symbol.

**C. Rs 200, According to the RBI:** The dimension of the banknote will be 66 mm x 146 mm.

**Features:**

1. See through register with denominational numeral 200.
2. Latent image with denominational numeral 200.
3. Denominational numeral २०० in Devnagari.
4. Portrait of Mahatma Gandhi at the centre.
5. Micro letters 'RBI', 'भारत', India and '200'.
6. Windowed security threads with inscriptions 'भारत' and RBI with colour shift. Colour of the thread changes from green to blue when the note is tilted.
7. Guarantee Clause, Governor's signature with Promise Clause and RBI emblem towards right of Mahatma Gandhi portrait.
8. Ashoka Pillar emblem on the right.
9. Mahatma Gandhi portrait and electrotype (200) watermarks.
10. Number panel with numerals growing from small to big on the top left side and bottom right side.
11. Year of printing of the note on the left.
12. Swachh Bharat logo with slogan.

**D. Rs 50, According to the RBI:** The size of the Rs 50 Note is 66mm x 135mm. The base colour of the note is Fluorescent Blue.

**Features:**

1. See through register with denominational numeral 50.
2. Denominational numeral ५० in Devnagari.
3. Portrait of Mahatma Gandhi at the centre.
4. Micro letters 'RBI', 'भारत', 'INDIA' and '50'.
5. Windowed demetalised security thread with inscriptions 'भारत' and RBI.
6. Guarantee Clause, Governor's signature with Promise Clause and RBI emblem towards right of Mahatma Gandhi portrait.
7. Ashoka Pillar emblem on the right.



8. Mahatma Gandhi portrait and electrotype (50) watermarks.
9. Number panel with numerals growing from small to big on the top left side and bottom right side.

## REVIEW OF LITERATURE

The literature reviews of the present studies regarding the overview of demonetization in India are as under the following headings.

**Sukanta Sarkar (2010)** conducted a study on the parallel economy in India: Causes, impacts & government initiatives in which the researcher focused on the existence of causes and impacts of black money in India. According to the study, the main reason behind the generation of black money is the Indian Political System i.e. Indian govt. just focused on making committees rather than to implement it. The study concludes that laws should be implemented properly to control black money in our economy.

**Nithin and Sharmila (2016)** studied demonetization and its impact on Indian Economy. They opined that demonetization has short term negative impact on different sectors of the economy and such impacts are solved when the new currency notes are widely circulated in the economy. They also argued that the government should clear all the problems created due to demonetization and help the economy to work smoothly.

**Nikita Gajjar (2016)** deliberated a study on Black Money in India: Present Status and Future Challenges and Demonetization. She described the framework, policy options and strategies that Indian Government should adapt to tackle with this issue and the future challenges to be faced by the Government.

**Manpreet Kaur (2017)** conducted a study on demonetization and impact on Cashless Payment System. He said that the cashless system in the economy has many fruitful benefits less time-consuming, less cost; paper less transaction etc. and he expected that the future transaction system in all the sectors is cashless transaction system.

**Lokesh Uke (2017)** researched on demonetization and its effects in India. He studied positive and negative impact of demonization in India. The study was based on secondary data available in newspaper, magazines etc. The main purpose of demonetization is to eradicate the black money and diminish the corruption. He expressed that Government of India has become success to some extent. Demonetization had negative impact for a short duration on Indian financial markets. But he said that the real impact will be shown in future.

## OBJECTIVES OF THE STUDY

The study has the following objectives:

1. To study about the concept of demonetization.
2. To study about the benefits of demonetization.
3. To study about the influence of demonetization process on Bank operations in the state.

## DATA SOURCE AND METHODOLOGY

The study is based on the secondary data that is obtained from the following sources: -

- Books, Articles, Reports, Journals, Magazines, News Papers and Government websites.

### NEED FOR THE STUDY

- The fake Indian currency notes in higher denomination have improved.
- Black money, habitually used in any form of corruption and criminal tricks.
- The Financial Action Task Force, a global body that looks at the scandalous use of the international financial system, notes that high-value bills are used in money laundering schemes, racketeering, etc.,
- In the United States, the highest denomination bank note is \$100 and United Kingdom, the highest denomination bank note £50.
- The highest denomination note is essentially 50-100 times the smallest denomination note of one dollar or one pound.
- In India, up until now the highest denomination note was Rs 1,000 and this was 1,000 times the smallest denomination note of Re 1 (Note: Re 1 notes are issued by the ministry of finance Govt of India).

**MERITS AND DEMERITS OF DEMONETIZATION:** The following are the merits and demerits of demonetization are as under:

- **MERITS OF DEMONETIZATION** There are some benefits of demonetization which describes that how many people are getting the benefit after banning the currency notes.
1. **Controlling inflation:** When inflation really gets out of hand, one explanation can be to totally change the currency and to start afresh. With increase in cash available for government expenditure and reduced state borrowing, inflation will fall for the short term and thus prices of necessary produce will also fall.
  2. **Reducing criminal activities:** Money is used for funding the criminal activities such as terrorism and drug trafficking will be rendered worthless. Hence, the government can use the policy of demonetization to copy the money that has been made from illegal activities such as drug trafficking and robbery since such individuals are faced with only two options: either deposit the money with the bank or be left with currency that has no value.
  3. **The move to digital exchange:** Some commentators quarrel that in the future, we will all be using digital exchange, such as bit coins. If this is true, then one advantage of demonetization is that it will help to push us into the future
  4. **Improved deposits and savings in financial institutions:** corresponding economies make it difficult for banks and other financial institutions to move up deposits. Demonetization reduces the size of the parallel economy and boosts savings and deposits. Demonetization can also be used to get false money out of circulation in a country's economy because such moneys cannot be deposited in banks and other financial institutions.
  5. **Large sum of unaccounted cash:** The biggest benefit of demonetization is that it helps the government to track the people who are having large sums of unaccounted cash or cash on which no income tax has been paid because many people who earn black money keep that money as cash in their houses or in some secret place which is very difficult to find and when demonetization happens all that cash is of no value and such people have two options one is to deposit the money in bank accounts and pay taxes on such amount and second option is to let the value of that cash reduced to zero.
  6. **Introducing new bank note designs:** Demonetization is also a good opportunity to redesign bank notes. This might involve making them more durable, for example. Several countries have switched from paper notes (which tore or got worn very

quickly) to more durable plastic notes, which have made their monetary system more secure in several ways.

7. **Paying tax honestly:** Demonetization has control over on those people, who are not paying of tax properly. This policy of demonetization forced to people to pay income tax returns. Those people are thrashing their income now required to come forward to declare their income and pay tax on the same.
8. **Deposit of proper tax:** Under demonetization, those people even though deposits up to Rs. 2.5 lakh will not come under income tax analysis, individuals are required to submit PAN for any deposit of above Rs. 50,000 in case. It will help the income tax department to follow persons with high denominations money.
9. **Simple to explore income tax:** The ban on high-value money will also control the hazard of money laundering. Now such actions can easily be tracked and income tax department can take such people who are in the business of money laundering.
10. **Growth in a country's GDP:** Due to low lending rates, enhanced revenue collection, and growth in savings and deposits, a country that has demonetized is likely to see an improvement in the growth of its GDP. The move has generated interest among those people who had opened Jan Dhan accounts under the Prime Minister's Jan Dhan Yojana. They can now deposit their cash under this scheme, and this money can use for the developmental activity of the country.
11. **Catch black money:** Demonetization is very essential tool for the government to follow the black money from India. Those persons, who have unaccounted cash, are now required to show income and submit PAN card for any legal monetary transactions. The government can get income tax return for the income on which tax has not paid.

#### ➤ DEMERITS OF DEMONETIZATION

Demonetization is not all beneficial and even proponents of demonetization acknowledge that it does have its disadvantages. A few of them are outlined below.

1. **Slowdown in economic growth:** The country registered a growth rate of 6.1 per cent in the March quarter. This growth rate is below the GDP growth of 8% in 2015-16, 7.5 per cent in the previous year and the expected growth of 7.1 per cent the current year. Demonetization seems to be the sole cause for the slowing down e GDP growth rate. Some observers also believe that the reason for the decline growth cloud be that as a proportion of GDP, investment has trended downwards for same time, with very few investors and companies following up with actual money after having promised to invest in India. Investment is believed to have shrunk in absolute terms by 30 per cent in 2016-17.
2. **Problems with paying bills:** If someone has sent some bank notes in the post in order to pay a bill, or if there is any important delay in processing a bill payment, and demonetization hits in the mean time, the money set aside to pay the bill can become invalid. This is more common that you might think in highly bureaucratic systems.
3. **Inconvenience and annoyance to the public:** Sometimes, demonetization can be very inconvenient. For example, sometimes the government will remove certain denominations of bank notes from circulation but keep others. It can be annoying when smaller coins are removed from circulation and you do not have enough change. Further, queuing up in banks to deposit money or exchange currency can be inconveniencing.

4. **Cash crisis:** Due to demonetization, availability of cash in the market will be very less because every currency should be deposited in the respective bank and till the time bank reissue the new currency against old, so ultimately the new currency will be very less in the market. This will affect the major industries in order to run efficiently without enough cash.
5. **Re-calibration of ATM's:** Re-calibration of ATM's is not done at rapid it should be done, which lead to long line and take more time to get our money back. Due to very slow system many people experience serious problem. Everyone has their own job and problem so they have deal with it anyhow.
6. **Short term financial crisis for poor people:** If people adopt a new currency and this currency is not a successful one, then it can cause a financial crisis for everyone who is involved. Even a small change in the value of everyday items, or even a small amount of confusion about whether a currency is valid can mean a lot of hardship. As such, demonetization can increase and exacerbate inequalities within society, at-least in the short term.
7. **Job losses** There was a loss of jobs due to demonetization, particularly in the unorganized and informal sector and in small enterprises. Labour union jobs were not working.
8. **Stock market decline:** As a combined effect of demonetization and US presidential election, the stock market indices dropped to an around six-month low in the week following the announcement. The day after the demonetization announcement, *BSE SENSEX* crashed nearly 1,689 points and *NIFTY 50* plunged by over 541 points. By the end of the intraday trading session on 15 November 2016, the *BSE SENSEX* index was lower by 565 points and the *NIFTY 50* index was below 8100 intraday.

#### DEMONETIZATION PROCESS IN THE JAMMU AND KASHMIR STATE

Demonetization means scrapping a currency unit of its status as legal tender. On 8th November, 2016, the Prime Minister of India announced that 2 units of Indian currency notes Rs. 500 & Rs. 1000 denomination are no more legal tender in India. The transition of converting demonetized note of Rs. 500 & Rs. 1000 is to last upto 30<sup>th</sup> December, 2016. Estimates of the two denominations in circulation are available from the RBI's annual report for 2015-16. While Rs 500 notes worth Rs 7,85,400 crore were in circulation, the corresponding figure for Rs 1,000 notes was Rs 6,32,600 crore, adding up to Rs 14,18,000 crore (Rs 14 lakh crore). The two denominations accounted for about 86.4 percent of the total value of currency in circulation, according to the RBI report.

The main aim of the demonetization in India is to cure black money and bring the huge stocks of cash under the umbrella of banking which could ensure monitoring by Enforcement Directorate & Income Tax Department. There are 1998 number of bank branches in J&K State comprising 934 in valley, 998 in Jammu province and 65 in Ladakh region as on 31.03.2016. The credit deposit ratio ending 31.03.2016 remained at 49%.

In general, the cash is deposited in banks by the people of the state which has now become habit as it had become a compulsion due to militancy. There are 20 lakh households in J&K state as per census 2011. At an average there is thus one bank branch for 1000 households in the state while at national level there is one bank branch per 1800 household. The size of annual credit plan of J&K state during the year 2015-16 stood at Rs 23605.23 crore. The credit deposit ratio for the year 2016-17 is 55% fixed by the RBI for commercial banks operating in J&K State. As on 31.03.2016, the total deposits in J&K state stood at Rs



86232.35 crore and the advances stood at Rs 42348.25 crore. There are 2 lakh ATMs in India while as in J&K there are 2260 ATMs of which 1011 ATMs are in Kashmir valley.

In J&K State, the money deposited in J&K Bank Ltd from 9th November, 2016 to 18<sup>th</sup> November, 2016 is of the order of Rs. 7888.00 crore. It's more than 3 weeks since the government announced the withdrawal of the old Rs 500 and Rs 1000 notes. As per RBI report, almost 12 lakh crore demonetized Rs 500 and Rs 1,000 notes have been deposited by the public since November 8, 2016 announcement upto 7 Dec, 2016. During the period from November 10, 2016 and December 7, 2016, banks have reported that banknotes worth Rs. 4, 27,684 crore have been issued to public either over the counter or through ATMs.

As reported by the RBI, the cash deposits in J&K state from 9th Nov, to 30th Nov, 2016 is of the order of Rs 12865.11 crore. The details of demonetization process in J&K state from 09.11.2016 to 30.11.2016 are as under: -

<b>Table 19: Details of demonetization process in J&amp;K state from 09.11.2016 to 30.11.2016</b>		
<b>S.No</b>	<b>Name of the Bank</b>	<b>Number of SBN deposited in accounts from 09.11.2016 to 30.11.2016 (amount in crore)</b>
(i)	Public sector banks	3081.95
(ii)	Private sector banks	87333.99
	Commercial bank ( Sub Total ) (i) += (ii)	11815.95
(iii)	Regional rural banks	695.37
(a)	Scheduled commercial banks (i+ ii+ iii)	12511.32
(b)	Central/ State coop. banks	353.79
	<b>Grand Total (a+)</b>	<b>12865.11</b>
<i>Central Bank of India , Syndicate Bank, Vijaya Bank , Bank of India , United Bank of India, Corporation Bank , State Bank of Hyderabad, Bhartiya Mahilla Bank, Axis Bank, Indusind Bank, South Indian Bank, Kotak Mahindra Bank, SCARD, Bombay Mercantile Coop. Bank, State Financial Corporation (SFC) have not provided data as reported by RBI.</i>		

Sources: RBI reports.

## CONCLUSIONS

Demonetization is an instrument used by central government to fight against the corruption and unaccounted money. In the same way, it influenced and brought changes in all the corner of the economy. Demonetization process is like a two faces of a currency because one side it will promote the whole nation and on the other side it's going to make some temporal and long term problems, Most of the business in India has money deal with less than 2 per cent business deals taking place electronically. Banks are the major institutions which are affected by the demonetization. Banned denominations were ploughed back and permitted the citizens to exchange with the banks. While exchanging, it troubled momentarily and inclined its regular operations. Though it affected badly to major level of bank operations, it helped the economy to find out the growth and development of the country through financial institutions like Banks.

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