



**EFFECT OF DEMONETIZATION IN INFLATION OF STATE OF
TAMIL NADU**



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ABSTRACT

Demonetization is one of the controversial move by Government of India on November 2016 by banning denomination higher than Rs100 i.e., Rs500 and Rs2000 notes. Due to inadequate cash flow in country it effect had impact on various variables in the country.

In this research effect of Demonetization on inflation in state of Tamilnadu is analysed. For Analysis of inflation consumer price index is used. The research is for two sets of parameters (i) Demonetization effect on rural areas of Tamilnadu and, (ii) Demonetization effect on urban areas of Tamilnadu

The data for research is collected from reliable source and compared with the forecast or expected value. From the compared result inference are concluded.

RESEARCH PAPER

INTRODUCTION

DEMONETIZATION

Prime Minister of India Narendra Modi on 8 Nov, 2016 announced the demonetization of higher value currency notes i.e., ₹500 and ₹1,000 banknotes of the Mahatma Gandhi Series in an unscheduled live televised address at 20:00 Indian Standard Time (IST). With the objective of stop the shadow economy and crack down on the use of illicit and counterfeit cash to fund illegal activity and terrorism. The demonetization move announced the issuance of new ₹500 and ₹2000 banknotes of the Mahatma Gandhi New Series in exchange for the old banknotes. The sudden announcement of demonetization created protracted cash shortages in the weeks that followed created significant disruption throughout the economy, threatening economic output. Demonetization move was heavily criticized due to poorly planned nature and disrupted day to day life of middle and lower class people.

CONSUMER PRICE INDEX

Consumer price index (CPI) is the metric which measures changes in the price level of market basket of consumer goods and services purchased by households.

The CPI is a statistical estimate constructed using the prices of a sample of representative items whose prices are collected periodically. Sub-indices and sub-sub-indices are computed for different categories and sub-categories of goods and services, being combined to produce the overall index with weights reflecting their shares in the total of the consumer expenditures covered by the index. It is one of several price indices calculated by most national statistical agencies. The annual percentage change in a CPI is used as a measure of inflation. A CPI can be used to index (i.e., adjust for the effect of inflation) the real value of wages, salaries, pensions, for regulating prices and for deflating monetary magnitudes to show changes in real values. In most countries, the CPI is, along with the population census one of the most closely watched national economic statistics.

METHODOLOGY

To understand the impact of demonetization on inflation, secondary data are collected and analyzed based on requirements. Secondary data are data which has already been collected by a third party and data, may be tabulated, sorted, and has undergone a statistical treatment. In this project the data 1 CPI of Tanulinadu is correlated with data 2 noney in circulation in those periods, and data 1 compares with forecast data.

DATA COLLECTION & ANALYSIS

CPI for Tamilnadu from (2016-01 to 2017-01)			
Year	Month	Rural	Urban
2016	Jan	129.7	128.7
2016	Feb	128.5	127.4
2016	Mar	127.7	126.6
2016	Apr	128.1	128
2016	May	130.1	130.2
2016	Jun	131.8	131.5
2016	Jul	131.2	131
2016	Aug	130.7	130.1
2016	Sep	130.4	130.1
2016	Oct	131.2	130.7
2016	Nov	131	130.9
2016	Dec	131.1	131
2017	Jan	131.8	131.6

Currency with the public from (Jun 2016 to Jan 2017)		
Year	Month	Rs (Billion)
2016	June	16567.5
2016	July	16784.7
2016	August	16730.4
2016	September	16560.5
2016	October	16985.4
2016	November	9119.1
2016	December	7829.1
2017	January	9126.8

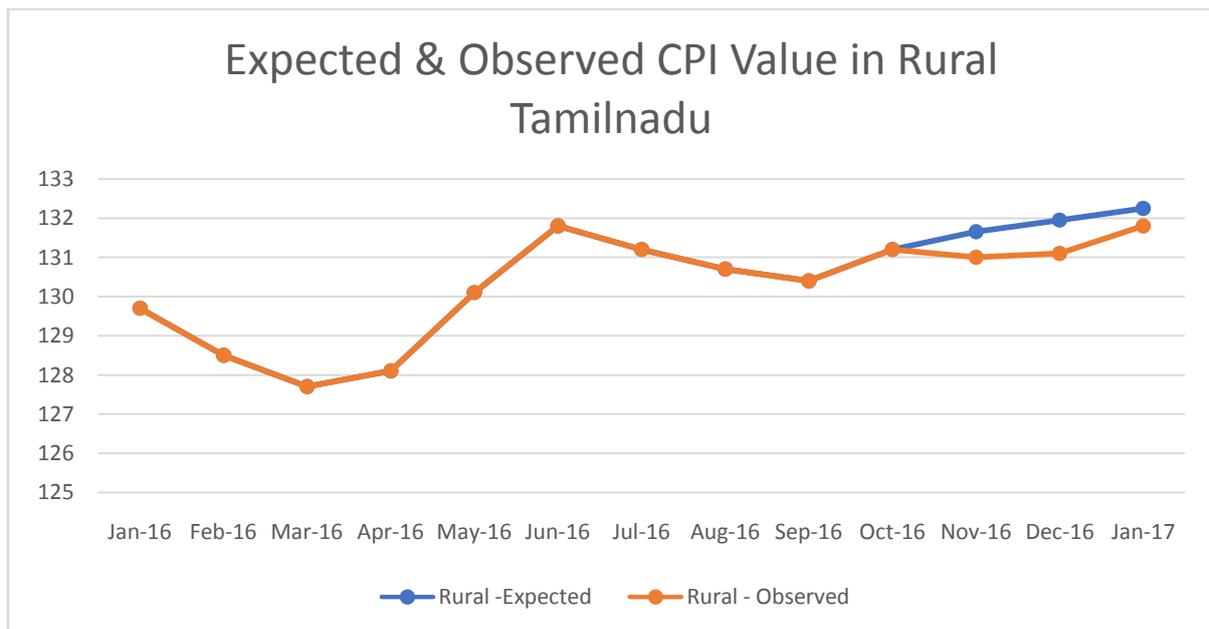
CORRELATION

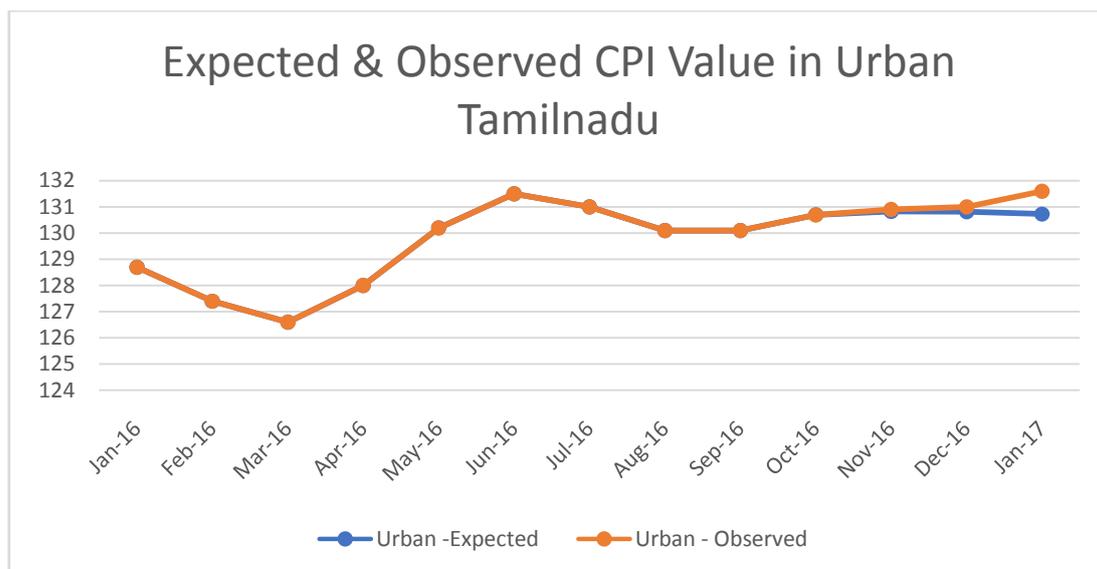
By using statistical correlation with currency with public and consumer price index of rural and urban areas the result is both are negative correlation. Negative correlation implies that there is mutual relationship between these variables.

FORECASTING OF DATA

Data is forecasted using parabolic trend forecasting method for the period of Demonetization i.e., November 2016 to January 2017.

Expected & Observed CPI Value					
		Rural		Urban	
Year	Month	Expected	Observed	Expected	Observed
2016	Nov	131.65	131	130.831	130.9
2016	Dec	131.95	131.1	130.8125	131
2017	Jan	132.2475	131.8	130.7265	131.6





CONCLUSION

Research project on effect of demonetisation on inflation using consumer price index in state of Tamilnadu is carried out using the secondary data. The conclusion from the research is as follows :

There is negative correlation between Demonetization and inflation in state of Tamilnadu. From the comparison of rural area observed consumer price index with expected consumer price index shows that the inflation is slightly decreased during the initial stage of Demonetization period and started to increase at end ending state of Demonetization.

And from the comparison of urban area observed consumer price index with expected consumer price index shows that the inflation is increasing manner and there is no sign of urban observed consumer price index coincide with expected values.

From the above calculated result and inference we can clearly point out that the Demonetization had negative impact on inflation in state of Tamilnadu.

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