

A STUDY ON IMPACT OF DEMONETISATION ON GOLD MARKET

DR.VIJI RAJESH *

Prof & Head, Department of Management Science, S.A Engineering College

&

MS.B.KAVITHA **

Student, DOMS, S.A. Engineering College

ABSTRACT

The paper represents about Demonetisation happened On 8 November 2016, announcing that Demonetisation policy and turning notes of Rs 500 and Rs 1000 into paper. Prime Minister of India Narendra Modi announced the Demonetisation in an unscheduled live televised address at 20:00 Indian Standard Time (IST). This paper deals with the impact of gold price changes during Demonetisation. The objective of the paper is to analyse the gold price impacts during Demonetisation through gold price history for 1 gram from 1-oct-2016 to 31-may-2017.

KEY WORDS: *Demonetisation, Gold price*

INTRODUCTION:

The government of India announced the demonetization drive to root out the counterfeit money and curb the black money in the country. Our country is undergoing an economic change and our Prime Minister Narendra Modi is serving as the main force behind this move. After Modi curbed the high denomination bank notes, his next move is to uncover the wealth of India; a number of investors and gold traders now fear that gold is his very next target. Demonetization effects on gold prices were seen immediately after the announcement of demonetization on the 8th of

November as there was an immediate rush to buy this precious metal which lifted the gold prices to 3-year highs. With investors now fearing that the Income Tax department will tighten the noose around the jewellers who are into money laundering using gold as the route, the prices of the precious metals started to witness sad own ward trend. The actions that were taken by the IT department have put immense pressure on the gold prices domestically. From rising to more than Rs. 31, 700 for 10 grams on the 9th of November, the gold price has dropped to about Rs. 27350 across major markets in India.

Demonetisation In India ‘Three times India faced the big move

The Narendra Modi government shook the country on November 2016 by announcing the demonetisation policy and turning notes of Rs 500 and Rs 1000 into paper. While people were allowed to exchange their old notes for valid currency, deposit the money, or withdraw a certain amount from the ATM, the move saw unprecedented lines outside banks and ATMs with bank employees working overtime to make up for the cash crunch in the common man's life.

The move to make currency illegal overnight has, however, happened earlier, both times with a view to interrupt black money deals and tender black money hoarded as illegal. By putting a cap on the money that one is able to deposit without coming under the scanner of the Income Tax department, the government aims at investigating possible tax evasions as well.

Here's a look at the two other times when high currency was demonetised in India

1. January 1946: Notes of Rs 500, Rs 1000, Rs 10,000 demonetised:

On January 11, 1946, the government announced that notes of Rs 500, Rs 1000 and Rs 10,000 will not be legal tender from

January 12, 1946. The front page of Indian Express from that day reads that the move was made with an aim to curb black marketing. The repercussions were similar with people dying of shock, exceptionally long lines at the bank and the middle classes being hit. The old notes were being sold at 60 and 70 per cent of their price. The move was called a 'death blow' to black marketeers. A rumour also went around that Rs 100 notes were being demonetised too, leading to panic and people discarding their Rs 100 notes as well.

2. January 1978: Notes of Rs 1000, Rs 5000, and Rs 10,000 demonetised

The Janata Dal demonetised high currency notes of Rs 1000, Rs 5000 and Rs 10,000 in a second such historic move, again with a view to curb black money transactions. It was termed as "an Act to provide in the public interest for the demonetisation of certain high denomination bank notes and for matters connected therewith or incidental thereto."

People who possessed these notes were given till January 24 the same year a week's time to exchange any high denomination bank notes. The one big difference with the announcement Tuesday is that Rs 1,000 and higher value notes were almost impossible to possess then for the common man given the values

3. November 2016: Notes of Rs 500, Rs 1000 demonetised:

The demonetisation of 500 and 1000 rupee notes have put the country almost to a standstill. The common people here are the ones who are feeling the greatest crunch, they common man is rendered helpless as he is not being able to withdraw money even through ATMs. The government's move to scrap nearly 23.2 billion high-value currency notes of Rs. 500 and Rs. 1,000, was in the pipeline for several months but was kept tightly under wraps, with just a handful of officials in the know. The government made it clear to the people through the media that demonetisation was an effort to eradicate black money and corruption on an overall context.

Impact Of Demonetization On The Indian Economy:

Black money simply refers to income illegally obtained or not declared for the purpose of taxes. There are a number of ways in which it affects the economy of a country. It leads to a loss of revenue to the government due to tax evasion. This in turn results in poor quality of public goods and infrastructure provided to people since the government doesn't have enough revenue to spend on it. And ironically, since the government taxes people to earn revenue to finance its expenses, lack of revenue in the

government's hand will naturally lead to an increase in the tax burden on people in any case. Black money also results in underestimation of per capita and national income since it doesn't get recorded in the government's book of accounts. Hence, if all the black money circulating in the economy flows back into the official records, there will be a substantial rise in the real incomes of people and national income of the country. And, lastly black money can also result in distortion in the consumption, as well as production patterns of the country. Hence, it becomes important for the government of any country to take necessary steps in order to curb black money in the economy.

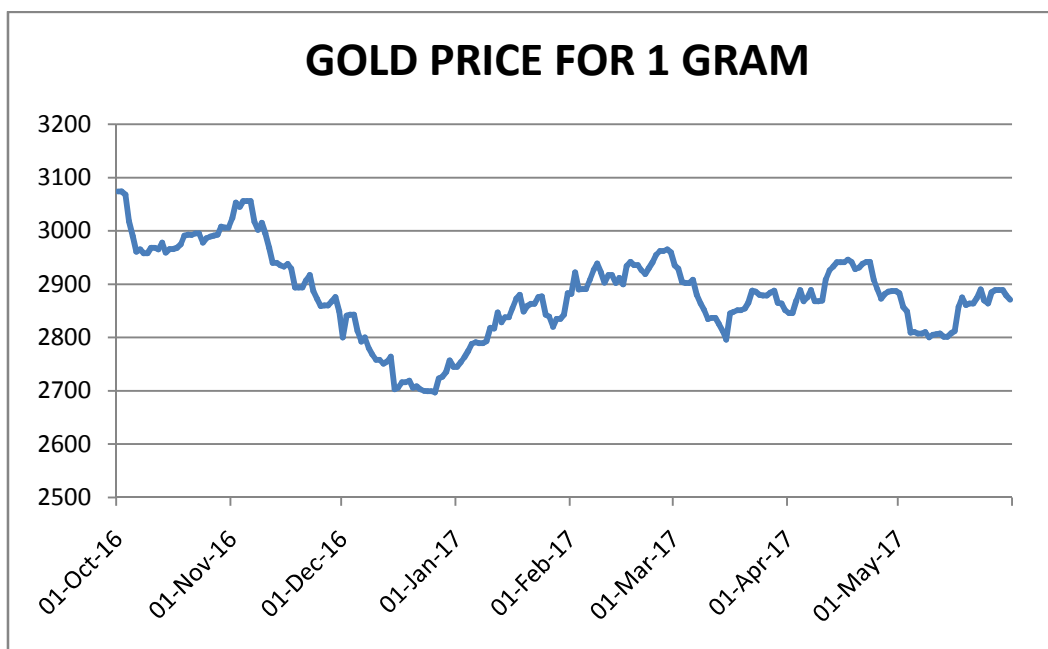
Impact of Demonetisation on gold:

He noted "There may be some problems for unorganised jewellers, but this will help them get organised. About 70-75 per cent of jewellers in the country are unorganised. But 25 per cent of the organised jewellers are contributing more than 80 per cent business, he added. Sreedhar said the industry body will not seek more time to implement this decision. India is the world's largest gold consumer and imports a sizeable chunk of its total annual consumption of around 900-1,000 tonnes.

Table1: Gold Price History for 1 Gram

DATE	OCT	NOV	DEC	JAN	FEB	MAR	APL	MAY
1	3074	3024	2800	2745	2882	2935	2846	2883
2	3074	3053	2841	2754	2922	2929	2846	2857
3	3068	3045	2843	2763	2890	2904	2869	2849
4	3018	3056	2843	2775	2891	2902	2889	2809
5	2990	3056	2812	2788	2891	2902	2868	2810
6	2961	3056	2792	2791	2908	2908	2875	2807
7	2965	3017	2800	2789	2927	2880	2889	2807
8	2958	3002	2780	2789	2939	2864	2868	2810
9	2958	3015	2768	2793	2922	2852	2868	2800
10	2968	2995	2758	2818	2903	2834	2869	2805
11	2968	2968	2758	2817	2917	2837	2909	2806
12	2965	2940	2751	2847	2917	2837	2926	2807
13	2978	2940	2755	2828	2902	2825	2933	2801
14	2959	2935	2764	2838	2912	2812	2941	2801
15	2966	2933	2703	2838	2900	2796	2941	2808
16	2966	2938	2706	2855	2934	2845	2941	2812
17	2968	2929	2716	2873	2942	2848	2946	2858
18	2975	2894	2716	2880	2936	2851	2941	2875
19	2991	2894	2719	2849	2936	2851	2928	2861
20	2993	2894	2706	2859	2926	2854	2931	2864
21	2992	2907	2708	2863	2919	2865	2938	2864
22	2995	2917	2703	2863	2930	2888	2942	2874
23	2995	2887	2700	2876	2941	2886	2942	2890
24	2978	2872	2699	2877	2955	2880	2908	2869
25	2986	2859	2699	2843	2962	2879	2891	2864
26	2989	2860	2697	2839	2962	2879	2873	2885
27	2991	2860	2723	2820	2965	2884	2881	2889
28	2993	2868	2726	2835	2960	2888	2886	2889
29	3008	2876	2735	2835	-	2865	2887	2889
30	3006	2849	2757	2843	-	2864	2887	2879
31	3006	-	2745	2883	-	2851	-	2871

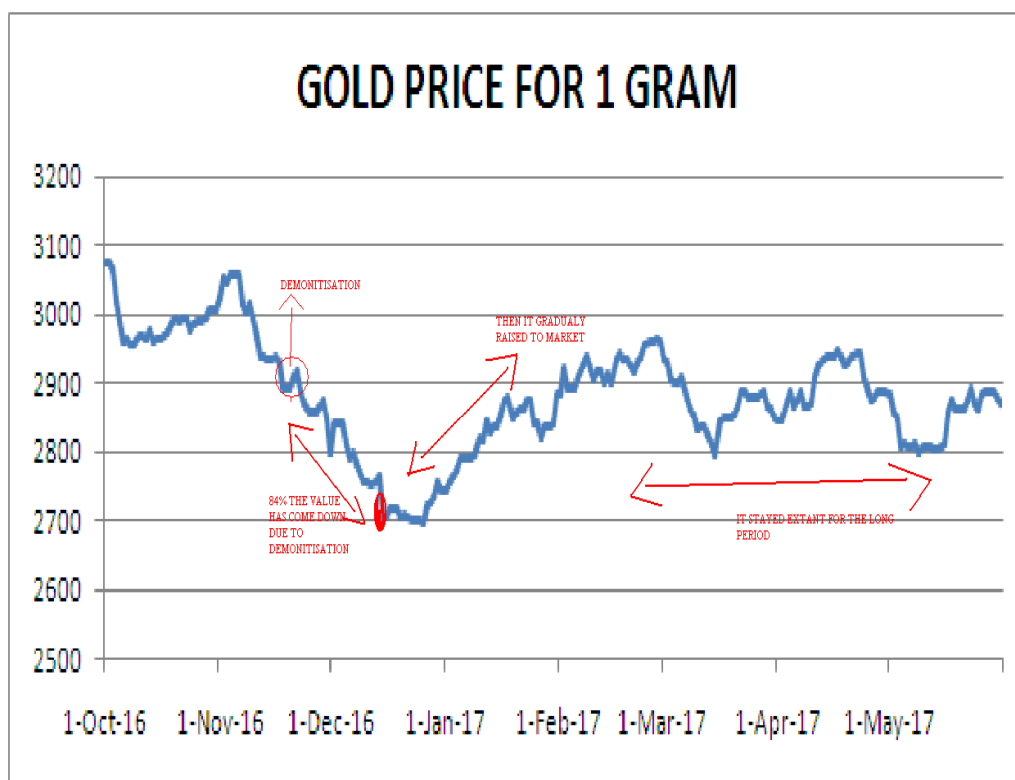
Chart 1: Overall Chart of Gold Price



Above data shows that there is short fall in the price due to demonetisation with lots of tension in the market with the assumption that it will impact the gold market. With investors now fearing that the Income Tax

department will tighten the noose around the jewellers who are into money laundering using gold as the route, the prices of the precious metals started to witness sad own ward trend.

Chart 2: Fluctuation and Interpretation



During demonitisation 84% of gold price has come down to the market value, Slightly there were changes occurred during demonitisation, After it has raised gradually from the period of January 2017, People started to adopt the changes made in the periods, Though people suffered due to demonitisation on the period of Nov – Dec. Then, they accept the changes for forth coming period.

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