IARJSET

ISSN (O) 2393-8021, ISSN (P) 2394-1588

International Advanced Research Journal in Science, Engineering and Technology

ISO 3297:2007 Certified ⋇ Impact Factor 7.12 ⋇ Vol. 9, Issue 10, October 2022

DOI: 10.17148/IARJSET.2022.91017

THE IMPACT OF DEMONETIZATION ON THE INVESTMENT BEHAVIOR OF INVESTORS IN EQUITY MARKET

Prof. Ms Manjushri Kadam[1], Dr. Shabana A. Memon[2]

Assistant Professor, Department of Management, Bharati Vidyapeeth Deemed to be University, Pune.

Institute of Management Kolhapur-Maharashtra – India[1]

Assistant Professor, Department of Management, Bharati Vidyapeeth Deemed to be University, Pune.

Institute of Management Kolhapur-Maharashtra – India[2]

Abstract: The paper entitled above is decent contribution to the investor market to study the impact of investors behavior of demonetization announced in 2016. The total Indian economy had affected in many ways and investors are also having impact of this decision. The paper highlights on positive and negative effect as well as study of changes in market with respect to equity.

Brief about the stock market Since the founding of the Bombay stock exchange, stock markets in India, particularly in Mumbai (BSE and NSE) have seen a number of booms as well as crashes.

This page lists these crashes and sharp falls in the two primary Indian stock markets, namely the BSE and NSE. *Financial Times* terms a double-digit percentage fall in the stock markets over five minutes as a crash, while Jayadev et al. describe a stock market crash in India as a "fall in the NIFTY of more than 10% within a span of 20 days" or "difference of more than 10% between the high on a day and the low on the next trading day" or "decline in the NIFTY of more than 9% within a span of 5 days". As per the latter definition, the Nifty experienced 15 crashes during the period 2000 to 2008 with a number of them having occurred in the months of January, May and June 2008. On 8th November 2016 ,Hon'ble Prime Minister Narendra Modi announces the demonetization of all Rs.500 and 1000 Currency of Mahatma Gandhi Series .The government under look that action to would curtail the shadow economy to safeguard the Indian financial system and to vanish the use of illicit and illegally authenticated funds for cash ,anti social activity and terrorism. The sudden announcement from Government of India and improper management of cash shortages in the entire economy for few days created high disruption ,which threatened the routine business which created impact on the economic output .The move was indigestible and was highly criticized because of poor planning for needy requirement .When the announcement of demonetization took place officially the BSE SENSEX and NIFTY 50 stock indices fell over 6% where the people focus was on their present maintenance rather than focusing on other investment avenue which even led to have reduced country's GDP and industrial production .This paper tries to explains before and after effect of notes ban in the country which created a tremendous changes in the people's lifestyle and life management which in turn also shows it has affected the performance of various stocks in the equity market.

INTRODUCTION

Demonetization is the act of stripping a currency of stripping a currency of its status .It is necessary whenever there is a change of national currency for the rectification of illegal activities in the economy .The background to announce activities in the economy .The background to announce demonetization in the economy was in 1946 and in 1978 government of India announced demonetization of bank notes in order to combat tax evasion by black money held by few populations out of the formal economy. In 2012 ,the CBDT recommends not to opt for demonetization saying in a report that "demonetization may not be a solution for tackling black money of the economy ,as the black money holders kept only 6% or less of their wealth as cash .Our Finance Minister Arun Jaitley said that demonetization would clean the complete economic system ,increase the size of economy and revenue base and also said the demonetization and the implementation of Goods and Service Tax (GST) will be "an attempt to change the spending habit and lifestyle''. The effect of demonetization is on every sector like such even investment is also affected to an extent but here the discussion part explains the purpose of as well as the impact of note ban on investment and performance of equity market.

DOI: 10.17148/IARJSET.2022.91017

REVIEW OF LITERATURE

The researcher has taken a extensive review of the selected study and its major issue which has affected the faith of investors nationally. The Research work on this topic is very limited and no study is done on the above title. Some of the reviews are given below

Richard Thaler (1998) : He is opinion that cognitive illusion in the market is because irrational thinkers always react to the market information very sensibly and wants to make immediate changes so their decision making process is fetching more returns for whatever decisions they take on their investment.

Nicholas Barberis & Richard Thalar's : A Survey of behavioral finance is of the opinion that the existing financialparadigms is based on the traditional finance paradigm which is a handbook to understood financial markets using models in which agents are rational in nature by 2 behavioral factors i.e,1) New information availability in the market 2) Acceptable of taking into consideration based on its consistency in earnings expected returns ,who makes and reacts to the changes that take place in the market and are also decides on the information or changes like demonetization and changes their portfolios .But in case of rational it is not the same .They are ready to take risk and they hold their portfolio investment for quite long.

Daniel Et Al.(1999) : He tries to explain by constructing a model of investors sentiments aimed at reconciling the empirical findings of over reactions and under reactions to the market information .Here he discusses about the psychology of investors which motivates them to identify the various portfolio on which various theories has been constructed .

Bernard (2002) : He also deal with behavioral factors such as under reaction and over reaction of stock prices to the announcement of companies earning which shows the results like when the stocks are sorted in to groups based on how much of a surprise is contained in their earning, the one naïve way is to measure an earnings surprise to look at SUE(standardized unexpected earnings),which is defined has the difference between the companies earnings in a given quarter and its earnings during the quarter year. Another way to measure an earnings surprise is by the stock price reactions to an earnings announcement .But the finding is that stocks with the positive earnings announcements has public information about earning with the positive earnings announcement has public information about earnings is incorporated into prices and also a stock with higher surprises then that also earning higher return in the period after portfolio formations.

La Porta Et Al (2005) : He finds evidence of overreaction in glamour and value defined using accounting variables .They finds that paradigms which are existing in the market specifically shows that the glamour stocks earn negative returns on the day of their future earnings announcement and value stocks earn positive returns .The market learns when earnings are announced that its valuations have been too extremes.

Andressssen And Kraus :They have basic findings for the investors to behave in a certain ways .So they say that the track price –Sell when the prices rise and buy when prices fall, even when the series they are offered is a random walk which is fairly a universal mode of behavior ,which is consistent with the reaction to the new in the market .However when subjects are given a series of data with a ostensible trend ,they reduce tracking that is they trade less in response to price movements.

De Bond (2016) : He finds strong evidence that people extrapolate past trends. In one case ,he asks subjects to forecast future stock price levels after showing them past stock prices over a period of time and he also analyzed a sample of regular forecasts of the Dow Jones index from a survey of members of the American Association of Individual Investors .In both cases, the forecasts change in price level is higher following a series of previous price increases than following price decrease suggesting that investors indeed chase trends once they think they see them.

STATEMENT OF PROBLEM

Most of the investors invest on stocks by expecting more returns on the risk what they take on their investment.Investors invest based on the information available and anticipate the performance of the stocks on which they have invested but the volatility of the stocks on which they have invested but the volatility of the market indices is based on the economic performance of the country . In other words any major decisions about the economy in the country will have greater impact on the performance of various institutions and organizations which in turn affects the financial flow through various institutions and organizations which in turn affects the financial flow through various investment avenues.

Objectives of the study :

- To examine the impact of demonetization of investment of investment decisions on investors .
- To analyze the performance of equity market based on the major decisions of Government of India.

IARJSET ISSN (O) 2393-8021, ISSN (P) 2394-1588

International Advanced Research Journal in Science, Engineering and Technology

ISO 3297:2007 Certified ⁒ Impact Factor 7.12 ⁒ Vol. 9, Issue 10, October 2022

DOI: 10.17148/IARJSET.2022.91017

Discussions :

The traditional finance paradigm have already proven that most of the financial practitioners are rational in nature which means agents receive new information and also updates their belief correctly in the manner, based on certain assumptions. But the modern financial theory is based on assumption that the economy is rational either because of agents decisions which is according to the assumption of expected utility theory or unbiased forecasts about the future .So here the behavior of investors is based on various paradigms and also various factors of behavior such as herding ,over-confidence ,confirmation ,experience ,loss of aversion ,availability and so on which influences the investments. People behave according to the situation that arise in the market or economy which impact the stock market status to a greater extent .Since every investor expects more return on their investment they focus on the market run and available trends .Some investors are conservative and some are aggressive when they want gain more returns. So the complete study and firm market conditions help them to get feasible investment. But the situation will not favor all the time all investors there arise the risk and volatility which in turn requires lot of analysis. Whenever there is a change in the economic condition in the country that will have direct or indirect impact on the every sectors of the economy .So there is a need of proper and firm decisions to be taken .When the demonetization announcement was made there was a tremendous impact on stock and bullion market which created a history during that period few details relating to demonetization and investment is discussed below:

Stock market crash :

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, BSE SENSEX crashed nearly 1,689 points and NIFTY 50 plunged by over 541 points . During the period Nov 2016.

Drop in Industrial output:

There was a reduction in industrial output as industries were hit by the cash crises. This indicates a slowdown in both ,manufacturing and services industries .The PMI report also showed that the reduction in inflation was due to shortage in money supply .The growth in eight crore sectors such as cement, steel and refinery products ,which constitute 38% of the Index of Industrial Production (IIP)was only to 4.9% as compared to last year.

Source :- https://pmjandhanyojana.co.in/demonetization-effect-stock-market/

Demonetization Effect on Stock Market

After November 8, 2016, the word ‘demonetization’ became a household word. In a daring, unexpected and completely baffling move, PM Narendra Modi announced on November 8, at 8:00 PM that existing high value currency notes of INR 500 and INR 1,000 will no longer be currency notes. They will be just pieces of paper with no value whatsoever.

Effect of demonetization on Indian Stock Market

While the debate is getting stronger and stronger by the day on the issue whether demonetization was a success or a failure, one of the most important questions that popped out was, ‘what was the effect of demonetization on Indian stock market?”

To be honest, the objectives of demonetization are more or less long-term. We still support it because we needed to start somewhere. However, what’s disturbing is that demonetization gave pain to millions of Indians who are struggling with cash shortage.

With this recent demonetization 86% of cash in circulation suddenly was destroyed. This led to short term pain for people. Banks were struggling to deal with long queues of people trying to exchange their old high-value currency notes with newly circulated currency notes. ATMs remained closed. However, it is not really easy to understand the total economic impact because of this unexpected policy simply by looking at people and banks and ATMs. A more reliable indicator of economic impact has always been the stock market trends.

IARJSET ISSN (O) 2393-8021, ISSN (P) 2394-1588

International Advanced Research Journal in Science, Engineering and Technology

ISO 3297:2007 Certified ⋇ Impact Factor 7.12 ⋇ Vol. 9, Issue 10, October 2022

DOI: 10.17148/IARJSET.2022.91017

It is a traditional practice to look at the indices of the stock market to understand the overall economic environment. Persistent and sharp plunges in such indices always indicate that economic activities are deteriorating.

So, did demonetization make any impact?

Basically, stock market is considered to be an independent animal and some policy changes barely impact the indices in the market. However, post demonetization, the scenario was quite different in the stock market. Just a week after demonetization, the NSE S&P CNX Nifty (currently known as NSE Nifty 50) registered a 5.1% drop in daily closing price as opposed to what was there on November 8 (the day when demonetization was announced). That was the worst close ever since February, 2016. In case you didn't know, the Nifty 50 is made up of stocks from companies belonging to various industries. But the pressing concern here is, '**is there a negative sentiment spreading across all sectors?**' It is pretty depressing and heart breaking to say that yes, the data from NSE or National Stock Exchange indeed shows a negative sentiment across various sectors. It turns out that the worst hit sectors have been realty, consumer and automobile.

The table given below shows the differences in price movements for two different periods – before demonetization and after demonetization. Here are some particulars of the table that you should know before going through the same:

- Several indices of National Stock Exchange have been used. These indices include FMCG, Automobile, Consumption, Banking, Realty etc.
- The data comprises of prices for 25 days of trading before demonetization.
- The data also comprises of prices for 11 days of trading after demonetization.

Table Showing Effect of Demonetization on Market

Sectors or NSE Indices	Returns in %age before demonetization	Returns in %age after demonetization	Differences in returns (calculated as percentage)
Nifty PSE Bank	– 0.1	0.14	0.24 **
Nifty Private Bank	0.01	– 0.73	– 0.74 **
Nifty Bank	– 0.01	– 0.5	– 0.49 *
Nifty Metal	0.2	– 0.14	– 0.34
Nifty Realty	– 0.2	– 1.01	– 0.81 **
Nifty Auto	– 0.08	– 1.2	– 1.12 **
Nifty India Consumption	– 0.1	– 0.93	– 0.83 **
Nifty FMCG	0.03	– 0.82	– 0.90 ***

Source:- https://pmjandhanyojana.co.in/demonetization-effect-stock-market/

IMPORTANT	
*	Denotes statistical significance at 10 %
**	Denotes statistical significance at 5 %
***	Denotes statistical significance at 1 %
Returns	Returns are calculated as mean returns and represented as percentage

Source:- https://pmjandhanyojana.co.in/demonetization-effect-stock-market/

IARJSET ISSN (O) 2393-8021, ISSN (P) 2394-1588

International Advanced Research Journal in Science, Engineering and Technology

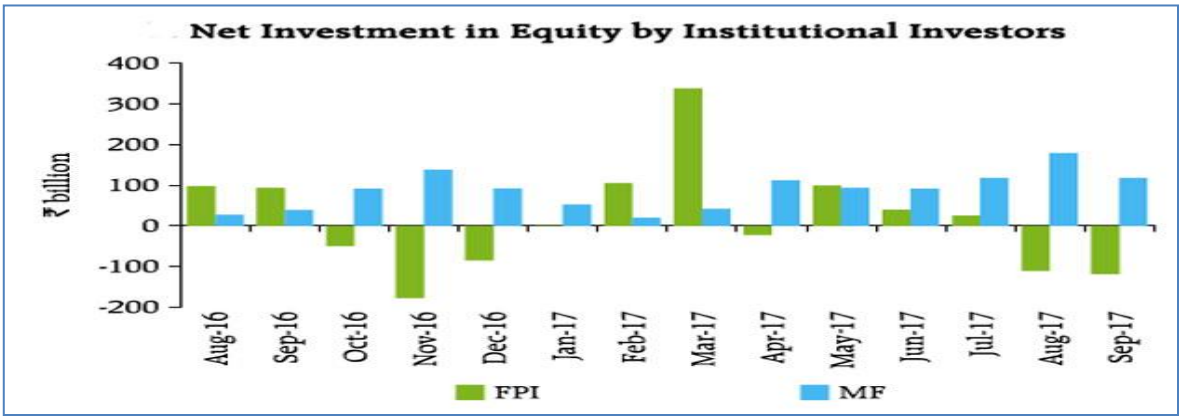
ISO 3297:2007 Certified ⁜ Impact Factor 7.12 ⁜ Vol. 9, Issue 10, October 2022

DOI: 10.17148/IARJSET.2022.91017

The table above clearly shows that the worst hit sectors in India after demonetization have been:

Performance of Debt and Mutual Funds :

Because of inflow of money in the banks ,the demand for government and company bonds and also for mutual fund was expected to increase as such it showed profit for long term and tax free bonds. Because of lot of liquidity in the bank the mutual funds gained importance in the market.



Source:- https://economictimes.indiatimes.com/wealth/personal-finance-news/h

Interestingly, as can be seen from the graph below, more than foreign institutional investors (FIIs), it was Indian financial institutions like mutual funds that kept rally going.

GROWTH OF EQUITY MARKET

Though there was a shrink in short term equity market because of uncertainty ,it gained lot of importance in the long run as it fetch lot of returns in long run because of lot of lots of funds flow into the economy to all sectors and growth in GDP as well as economic output .When it comes to investment people tries to invest in such portfolios which gives more return on their investment made.According to trend in the financial market the assumption is high risk and high return which is associated with the investment and the investment is associated with savings and savings depends on the income and expenses .So old trend i.e., income – expenses = savings is now changed into income – savings = expenses and the equity is one of the best asset for long term to grow the money ,It is the only instrument which can provide tax free returns if you are staying invested for long period .Since the formalized system is created because of demonetization money flows into the economic system and its effect is the conversion of black money into white money as people pays more taxes to the government .This also encourages ELSS investment schemes which results in wealth creation and economic growth.

CONCLUSION

Demonetization move in the country has proved that it is good move by our PM as it has focused on the removal of anti-social activities which safeguards the economy and also safeguards the investors who has invested huge amount of money of economic sectors as it has given various good opportunities for funding and it also proved that investors who have focused on long term investment portfolios has not at all worried and their investment behavior has not affected much as their expected returns was safe when it comes to future perspective. So in case of short term it gives low return and in case of long term it gives more return to investors which are the main focuses. The negative impact that showed up in stock market after demonetization is gradually rebounding back to normalcy. situations will improve because government treasury will become plump and government spending will increase. Both the above objectives are explained and its useful for the readers to know the impact of demonetization on investors behavior on equity.

REFERENCES

1. Aayadev; M, Sathish; R, Subash. "Predicting Stock Market Crashes". Tejas@IIMB. Retrieved 5 February 2018.pp 23-24.
2. Mampatta, Sachin; Bhayani, Rajesh (22 July 2015). "How Abraham Lincoln triggered India's first stock market crash". Business Standard. Retrieved 3 February 2018.

DOI: 10.17148/IARJSET.2022.91017

3. Wacha, Dinshaw (1910). A Financial Chapter In The History Of Bombay City. A.J.Combridge And Company.
4. Dwivedi, Sharada; Mehrotra, Rahul. Bombay: the cities within.
5. Tripathi, Dwijendra (2004). The Oxford History of Indian Business. Mumbai: Oxford university press. ISBN 978-0-19-565968-9.
6. Visana, Vikram (September 2016). "Vernacular Liberalism, Capitalism, and Anti-Imperialism in the Political Thought of Dadabhai Naoroji". The Historical Journal. **59** (3): 775–796
7. Ram Prasad, Bandi. "BSE - from Banyan tree to biggest bourse". Hindu Business Line. Retrieved 3 February 2018.
8. Verman, Virendra (27 April 2004). "Behavioural finance as investment concept". Hindu Businessline. Retrieved 3 February 2018.