Research Paper

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MARKET REACTION TOWARDS THE ANNOUNCEMENT OF DEMONETIZATION IN INDIA: A CASE STUDY OF BSE & NSE

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ABSTRACT

The main objective of the present study is to examine the stock market reaction towards the announcement of demonetization in India in short term. To meet this objective the researcher collected secondary data from various data centers like, yahoofinace.com, reports of selected stock exchange, articles and magazines. For the purpose of the study two leading Indian stock exchanges, NSE and BSE have been selected. The total 20 days SENSEX were used, out of which 10 days pre and 10 days post announcement of demonetization. The statistical tools like Percentage, Average, SD and Paired T test have been employed for analysis of the data. Finally the study reveals that, in both NSE and BSE stock indices are negatively reacted towards the announcement of demonetization in short term. However, post demonetization, the scenario was quite different in the stock market.

KEYWORDS: Demonetization, Stock Market, Sensex, t-test.

INTRODUCTION

The term demonetization is not new to the Indian economy, the highest demonetization notes ever printed by the RBI was Rs. 10 000 in 1938 and again in 1954. But these notes were demonetized in January 1946 and again in January 1978. Recently, the Government of India with the aims of reduces corruption, counterfeit currency, terrorism and black money, announced demonetization on November 8th 2016 and ceased Rs.500 and Rs. 1000 notes as a part of legal tender in India. The Reserve Bank of India manages currency in India and derives its role in currency management on the basis of the Reserve Bank of India Act, 1934 and a new redesigned series of Rs 500 banknote, in addition to a new denomination of Rs 2000 banknote is in circulation since November 10, 2016. However, with the latest round of demonetisation, the common public and bankers are undoubtedly facing hardship since more than 85 percent of currency in circulation has been rendered illegal in one single stroke. Demonetisation is surely hampering

the current economy and will continue to do so in the near term and will also impact India's growth but will have positive long lasting effects. This move has also shown its impact on the Indian Stock Markets. A number of investors have started to withdraw their capital from the share market; while some did it, due to lack of funds, there are others who are expecting a further fall and hence are looking for an opportunity to buy at a lower level. While number of financial experts have welcomed the move by central government and called it bold, they expect that, the share markets to get hurt for at least 6 months to a year. To this background, the researcher made an attempt that, how Indian stock markets reacted towards the announcement of demonetization.

HYPOTHESIS OF THE STUDY

H_0: There is no significant improvement in selected stock markets after the announcement of demonetization

H$_0$: There is a significant improvement in selected stock markets after the announcement of demonetization

METHODOLOGY OF THE STUDY

The main aim of the present study is to examine the market reaction towards the announcement of demonetization in short term. For this purpose, the researcher selected Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) as sample size. The study based secondary data; the required data have been collected from yahoo-finance.com, BSE, NSE and other secondary sources like Articles and websites. Total 20 days SENSEX i.e., 10 days before and 10 days after the announcement of demonetization is used. For the purpose of analysis of the data, Mean, Standard Deviation and Paired t test have employed in the study.

ANALYSIS AND INTERPRETATION
A. Bombay Stock Exchange (BSE)

The Bombay Stock Exchange (BSE) is an Indian Stock Exchange, located at Mumbai, India. It was established in 1875. The BSE is a first stock exchange in Asia. It claims to be world fastest stock exchange with a Median trade speed of 6 microseconds. More than 5500 companies are publically listed on the BSE. It is world 11th largest stock exchange with an overall market capitalization of $ 1.43 trillion. In this section researcher has studied, BSE sensex with respects to announcement of demonetization, which is presented in Table-1.

Table-1, presents the daily sensex, its trends and percentages of changes in sensex of BSE for 21 days, which consists 10 days before and 10 days after the announcement of demonetization i.e., 8th November 2016. In both, pre and post period announcement of demonetization, negative return found in 6 days out of 10 days of the study. Of which maximum negative return found in the day immediately after the day of demonetization announcement (1.7%) and 3rd day (i.e.-3.51%), only few days of positive return can be seen in study period. Fig 1 & 2 shows the NSE sensex and Return during period 24th October 2016 to 23rd Nov 2016 for 21 days, which reveals that there were immediate fall in the sensex after the announcement of demonetization then after it moves in a positive direction. T test has been employed to test significance difference in sensex between pre and post announcement demonetization. From the table-2, it is clear that, the calculated t value is more than critical value (t 11.76>2.262). therefore it can be concluded that, there is significant improvement in the stock market after the announcement of demonetization.

Table-1: Pre and post Announcement period BSE SENSEX,

Date	Adj Close	Trends	% Change
24-10-2016	28179.08	100	1
25-10-2016	28091.42	99.68892	-0.31108
26-10-2016	27836.51	99.09257	-0.59635
27-10-2016	27915.9	100.2852	**1.192631**
28-10-2016	27941.51	100.0917	-0.19346
1/11/2016	27876.61	99.76773	-0.32401
2/11/2016	27527.22	98.74666	-1.02106
3/11/2016	27430.28	99.64783	**0.90117**
4/11/2016	27274.15	99.43082	-0.21702
7/11/2016	27458.99	100.6777	**1.246896**
8/11/2016	**27591.14**	**100.4813**	**-0.19644**
9/11/2016	27252.53	98.77275	-1.70852
10/11/2016	27517.68	100.9729	**2.20019**
11/11/2016	26818.82	97.46032	-3.51262
15-11-2016	26304.63	98.08273	**0.622407**
16-11-2016	26298.69	99.97741	**1.89468**
17-11-2016	26227.62	99.72976	-0.24765
18-11-2016	26150.24	99.70497	-0.02479
21-11-2016	25765.14	98.52736	-1.17761
22-11-2016	25960.78	100.7593	**2.231953**
23-11-2016	26051.81	100.3507	-0.40866

Source: Yahoofinance.com

Fig-1: BSE SENSEX

Fig-2: % Changes BSE
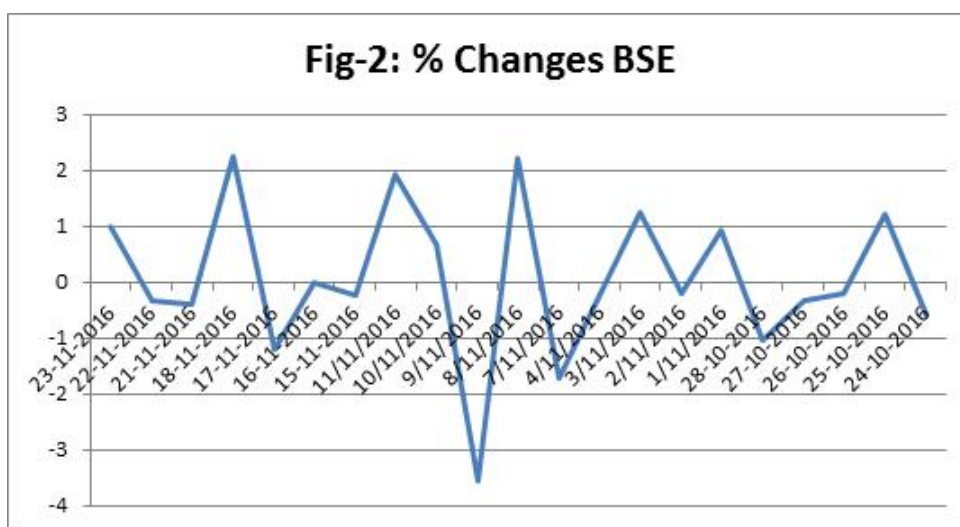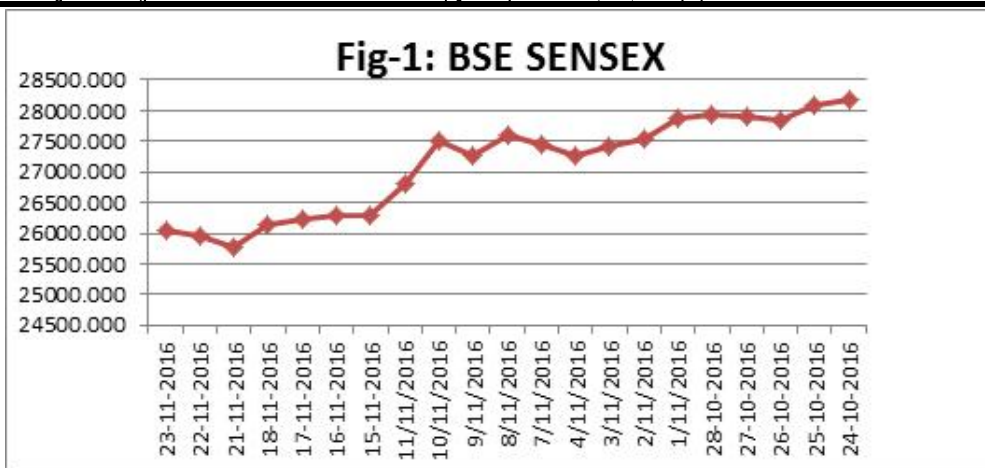
Table -2: t-Test: Paired Two Sample for Means

Unit	*Period*	Mean	Variance	N	df	t Stat	Sig*
BSE	*Post*	27753.167	94584.585	10	9	11.276	2.262
	Pre	26434.794	329774.41	10			

*Source: Compiled from Table-1 *at 5% level of Significance*

## B. National Stock Exchange (NSE):

National stock exchange of India Ltd (NSE) is leading stock exchange of India, located at Mumbai. NSE was established in 1992. NSE was the first exchange in the country to provide a modern, fully automated screen based electronic trading system, which is offers easy trading facility to the investors spread across the length and breadth of the country. NSE has a total market capitalization of more than $ 1.41 trillion making it the world largest stock exchange. The given table-3 shows the NSE sensex, its trends during the period between pre and post announcement of demonetization.

From the table-3, It is observed that, in both pre and post announcement period of demonetization, positive return found in 5 days, of which maximum positive return can be seen post announcement period, i.e. 2.41%, 2.3% and 2.71% on 10th, 16th and 22nd November respectively. Negative return (-1.86%) is to found in the day immediately the day of after the announcement, i.e., 9th November. This results indicates that, the by sudden announcement of demonetization, market negatively reacted then after it moves in positive direction. This is also supported by t test (table-4). Here, t value is more than the critical value (t, 9>2.26), H_0 **rejected.** Therefore it can be concluded that, therefore it can concluded that, the market were negatively reacted towards the announcement of demonetization.

Table-3: Table-3: Pre and post Announcement period NSE SENSEX

Date	Adj Close	Trend %	% change
10/24/2016	8708.95	100	**1.000**
10/25/2016	8691.3	99.79733	-0.20267
10/26/2016	8615.25	99.12499	-0.67235
10/27/2016	8615.25	100	**0.875013**
10/28/2016	8638	100.2641	**0.264067**
11/1/2016	8626.25	99.86397	-0.40009
11/2/2016	8514	98.69874	-1.16523
11/3/2016	8484.95	99.6588	**0.960058**
11/4/2016	8433.75	99.39658	-0.26222
11/7/2016	8497.05	100.7506	1.353977
11/8/2016	**8543.55**	**100.5472**	**-0.20331**
11/9/2016	8432	98.69434	-1.85291
11/10/2016	8525.75	101.1118	**2.417499**
11/11/2016	8296.3	97.30874	-3.80309
11/15/2016	8108.45	97.73574	**0.426996**
11/16/2016	8111.6	100.0388	**2.303111**
11/17/2016	8079.95	99.60982	-0.42903
11/18/2016	8074.1	99.9276	**0.317781**
11/21/2016	7929.1	98.20413	-1.72346
11/22/2016	8002.3	100.9232	**2.719047**
11/23/2016	8033.3	100.3874	-0.53579

Source: Yahoofinance.com

Fig: 3-NSE SENSEX

Fig-4: % Changes NSE
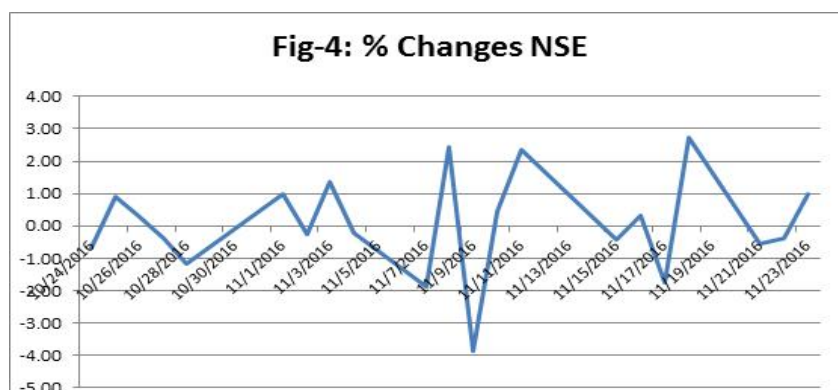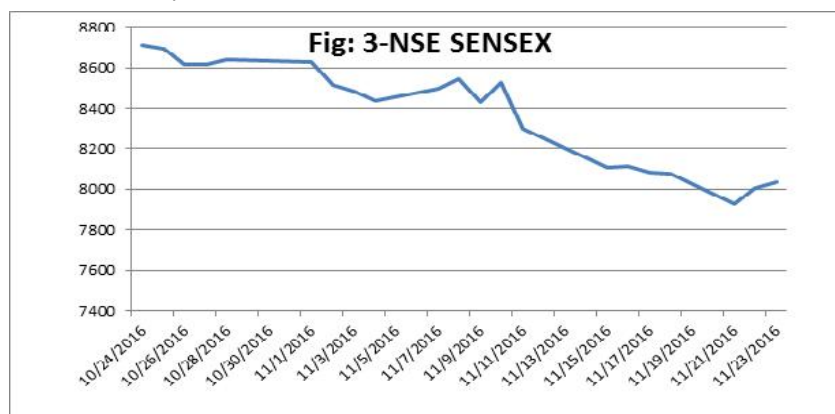
Table -4: t-Test: Paired Two Sample for Means

Unit	Period	Mean	Variance	N	df	t Stat	Sig*
NSE	Post	8582.48	8733.67	10	9	10.33	2.26
	pre	8159.29	37705.93	10			

*Source: Compiled from Table-3, *at 5% level of Significance*

CONCLUSION

The introduction of GST, Unexpected victory of Donald Trump and the Currency Demonetization in India are the three main key developments in the year 2016, which will have long term impact on the Indian stock markets. While there are concerns of central government demonetization drive, aimed at curbing corruption, and tax evasion, will put the brakes on the economy, a more risk is, its impact the foreign investors who have already begun moving out of the economy. With this recent demonetization 86% of the cash circulation suddenly was destroyed, this led to short-pain of people; banks were struggling to deal with long queues of people trying to exchange their old notes with newly circulated currency notes, ATMs remains closed. However it is not really easy to understand the total economic impact because of this economic policy by looking at people, banks and ATMs. The more reliableindicator of economic impact has always been stock market and it is a traditional practice to look at the indices of the stock market to understand the overall economic environment of the country. The present study is also found that, in both NSE and BSE stock indices are negatively reacted towards the announcement of demonetization in short term. However, post demonetization, the scenario was quite different in the stock market.

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