

Removing the legal tender status of a unit of currency is a drastic intervention into an economy because it directly affects the medium of exchange used in all economic transactions. It can help stabilize existing problems, or it can cause chaos in an economy, especially if undertaken suddenly or without warning. That said, demonetization is undertaken by nations for a number of reasons. Small businesses and households struggled to find cash and reports of daily wage workers not receiving their dues surfaced. The rupee fell sharply against the dollar. The government's goal was to combat India's thriving underground economy on several fronts: eradicate counterfeit currency, fight tax evasion, eliminate black money gained from money laundering and terrorist financing activities, and to promote a cashless economy. Individuals and entities with huge sums of black money gotten from parallel cash systems were forced to take their large-denomination notes to a bank, which was by law required to acquire tax information on them. If the owner could not provide proof of making any tax payments on the cash, a penalty of 200 percent of the owed amount was imposed. Demonetization has been used to stabilize the value of a currency or combat inflation. Some countries have demonetized currencies in order to facilitate trade or form currency unions. Lastly, demonetization has been tried as a tool to modernize a cash-dependent developing economy and to combat corruption and crime. The chief disadvantage is the costs involved in printing and minting the new currency. Also, demonetization may not have the intended effect of reducing criminal activity as these entities might be savvy enough to hold assets in other forms other than physical currency. Finally, this process is risky as it can plunge the nation into utter chaos if not handled with the utmost of competence.