

LESSON 25

CASHLESS TRANSACTION

In the 21st century with the rapidly changing environment the economies of many countries are moving from developing to developed stage. This results in wide use of money in cash form in economic transactions in an economy. The circulation of cash increases with increasing cash transaction resulting in rapid increase in demand for money. The burden on central bank in the economy increases. The bank has to bear the increased cost of printing and issue of notes and currency. Thus, the government of developing countries has encouraged the people for cashless transaction in the economy.

Indian economy which is one of the 10 biggest economies of the world is also confronting this problem at present. It is a big challenge in a country, with great geographical diversity and big area and with population more than 100 croers to provide money in cash for economic transactions. Thus the scholars have laid emphasis on the need to encourage cashless transactions for the emerging economy of a country like India. Government is making efforts to bring awareness amongst people while moving towards a cashless society.

The use of e-commerce in India has been started for over one decade. E-commerce or E-business is an advanced and modern technique in which trade is operated by means of internet. The consumer not only is able to purchase goods and services sitting at home but a seller too is able to sell his commodity in any part of the world. The trader can also get the rating of his product from the purchases.

Internet provides many opportunities for basic infrastructure business of consumer services and value added services. At present it is widely used in computer, telecommunication and television business. Since 1990 the commercial firms had started the use of internet for advertisements of their products and to increase their sale. Online shopping captures a big share in the network of commercial activities. In the 21st century competitive environment and opportunities for online trade are being increasingly provided.

Meaning

The simple meaning of the word cashless transactions is financial transaction without money (cash). Thus buyers and sellers exchange goods and services without use of cash. This is possible through transfer of money in bank accounts. Cashless transactions are conducted by means of credit cards, ATM cum debit card internet banking and cheques etc. These can be said as means of e-commerce which was started in India approximately a decade back.

Modes of cashless transactions are as follows:-

- Payment by cheque and draft
- Payment by internet banking
- Payment by swipe machine
- Payment by ATM machine
- Mobile App.
- Through USSD (unstructured supplement any service Data)
- Through Micro ATMs



Digital transaction

1. Payment through cheque or draft -

One of the simplest mode of cashless transaction is payment by cheque or draft. In this the purchaser keeps the cheque book with him issued by bank and can make payment of any transaction, anywhere by means of cheque to the seller. Similarly, drafts are used for big deals. It is a payment on behalf of a payer that is guaranteed by the issuing bank. Both these modes do not need the use of internet.

2. Payment through internet banking -

The second important mode of cashless

transactions is the internet banking by which a buyer can purchase online goods, services from various companies. Thus, without cash payment a buyer can purchase goods from home a means of internet banking payment of railway tickets, air tickets, cinema tickets etc. can also be made. It is believed to be the most simple & convenient mode Online shopping is the process where a consumer directly buys goods and services from the comfort of their homes by placing the purchase order.

3. Payment through Swipe Machine -

Swipe machine is a payment terminal provided by the bank on which merchants can swipe to receive payments. The amount of payment is directly transferred to the firm's account. The purchaser, to get benefit of this service uses credit debit cum ATM card. Every purchaser can use it successfully.



Swipe machine

4. Payment through ATM Machine -

In cashless transactions a buyer can directly transfer the amount of money in seller's account by his ATM card. To get this benefit the accounts of both buyer and seller should be in the same bank. It is necessary to know the IFSC code. Thus it is a limited facility.



ATM machine

5. Through Mobile app -

In present time use of mobiles is rapidly increasing. The various apps in smart phones help in cashless

transactions very conveniently. Many banks have introduced e-wallet app for purpose of cashless transactions. Similarly, many Indian and foreign companies have launched several types of apps for android phones. Such apps can be downloaded from google play store at free of cost. The purchaser can transfer the money in e-wallet account by means of ATM card or internet banking. With the help of e-wallet many bills can be paid from home. The Government of India currently introduced BHIM app. The prime minister, to show trust in digital transactions has launched this government app. This app has been dedicated in name of Dr. Bhimrao Ambedkar, the constitution maker and an economic and social thinker. This app is related to all nationalised banks and a few private banks. Thus the people can easily use this for the purpose of simple digital transactions.



6. Payment Through USSD Technique :-

This service allows mobile banking transaction using basic feature mobile phone. There is no need to have smart phone and internet banking facility for using USSD based mobile banking. The customers can avail this service by dialing *99# and the first three letters (of their bank) of four digits of IFSC code of their bank. After giving the necessary information, he gets the MMID code and MPIN. To make the payment to any person, his mobile number, MMID number (code) should be known and to ensure the payment he has to register his MPIN (secret). Thus this is the most easy and simplest mode of cashless transactions.

Micro ATM - Micro ATM is based on Aadhar Enabled payment system AEPS. This machine contains finger print scanner. It is mandatory to link the Aadhar Number to bank account. To get the benefit of this mode a person should know his bank account & addhar number.

Utility of Cashless Transactions:-

In a country, where on one hand more use of cash for economic transactions increases black-marketing and corruption, on the other hand it lays much pressure on note issuing system. Cash transactions have also much burden directly or indirectly on banks. As a result, the banking facility is not easily and systematically availed by the customers.

Thus where cashless transaction is the need of the hour, it is also considered necessary for safe transactions in an economy. At present it is the best alternative.

Benefits of Cashless Transactions -

Viewing the increasing economic transactions in an economy cashless transaction is visualized as the simplest and most convenient alternative. From economic and social point of view some important benefits are as follows :-

1. Saving of time & money -

The greatest benefit of cashless transaction is to the consumer class. The bills are no longer to be deposited on the office counter, due to which time and money are not wasted. Today online shopping provides special offers to the customer. Thus, the consumer choosing any options of cashless transaction, can save his time and money.

Free from holding Cash -

On many occasions excessive amount of cash is carried in wallets for a big purchase which is inconvenient and risky. Thus by adopting the mode of cashless transactions one gets rid of keeping cash. Hence, cashless transactions are convenient.

Pressure on banks decreases -

In an economy as people adopt more and more the mode of cashless transaction, the unnecessary burden on banks decreases. People do not go frequently to banks for cash. Thus banks have to maintain less records of cash. As the accounts in the bank are computerised withdrawals and deposits of the account holder are automatically maintained. Hence the workload of bank employees is lessened and they can provide their customer better services.

Increase in Revenue -

One of the benefits of cashless transaction is that the payment made by the buyer gets directly deposited in the seller's current account. This enhances the feasibility of accurate estimation of the income. This also increases the purview of the tax revenue of the government and the amount of revenue received from taxes increases.

Decline in Black Marketing -

If the economic transactions are cashless, then it is easy for the government to know about when and what goods are purchased by the trader. This will regulate the hoarding of necessary goods for the purpose of black marketing. The trader is unable to create artificial scarcity of the good for purpose of profiteering.

Control of illegal activities -

In an economy there are several economic transactions which are performed for the purpose of speculation, but escape from the eyes of the government. Such illegal activities are deals of property and sale of land in real state.

Cash transaction takes place by depicting lower prices of higher ones or showing lower price as high. This results in huge revenue losses to the government. Thus cashless transaction proves to be beneficial in regulating the illegal activities.

Limitations of cashless transactions -

On one hand, there are many economic and social benefits of cashless transaction, but on the other hand there are a few difficulties and limitations in its implementation, they are as follows:

1. Problem of illiteracy-

The greatest hindrance in move towards cashless transaction economy is that there is big group of less educated and illiterate people. The less educated people avoid modes of cashless transaction.

2. Lack of banking habits -

In developing countries an important economic problem is that people have less banking habits. In a big country like India under Pradhanmantri Jandhan Yojna free accounts have been opened in banks for

crores of people, but people do not use them properly. Thus lack of banking habits hinders cashless transactions.

3. Fear of cheating -

People avoid the use of cashless transactions because of the fear of cheating. If the password is kept secretly and safely then the fear of cheating is not possible. This usually happens because of cheating, fraud, carelessness and ignorance.

4. It is ineffective in many transactions -

In the economy there are many transactions for which cashless transactions is not significant for example - as employees (workers) of small business, cobbler, washerman vegetable seller, milkman, worker on daily wages, mechanic, refuse collector etc. They give importance to cash payment. Because of small cash they find it easy to receive money in cash mode.

5 Limited expansion of banking facilities -

The limited expansion of banking facilities in big economies too hinders cashless transactions. In India today also in rural areas banking facilities are not sufficient. Thus cashless transaction is generally used by the urban citizens.

Lack of effective laws for regulation of cyber crimes:

In present times in India there are very few laws for protection of right of customers of cashless transaction. In absence of effective laws, to check the frauds involved in cashless transactions made the people suffer from economic loss for many years.

In spite of the above limitations the importance of cashless transactions cannot be ignored. Cashless transaction is the need and demand of the hour in rapidly expanding economies.

Precautions during digital transactions:-

- Don't response to any messages to provide your user ID passwords, credit or debit card number. No banks will ever ask for your user ID.
- If any enquiry seems doubtful immediately contact your bank.
- One should not keep written his pin number with debit and credit card

- Secrecy should be maintained while using ATM card on swipe machine.
- Use of mobile app after seeing the official source.
- While using net banking an eye should be kept on account statement & password should be changed from time to time.
- Don't give your mobile to be used by some unknown person otherwise by use of OTP password he can do digital transactions on your account.
- The registered mobile number in account should never be changed because the messages of the transaction and OTP are received on it.

Relevance of cashless transaction with reference to India -

Recently, on 9 Nov. 2016 the government of India took a step to demonetize ₹ 500 and ₹ 1000, which means legal tender of currency was declared invalid. The cash with the people was deposited in banks and in exchange 500 and 2000 new currency was replaced. Most of the people and traders for sometime faced some problems due to less cash in the economy. The government encouraged the people for cashless transactions. In economy, definitely from the printing of notes to its management the government has to bear expenditure of crores of rupees. The private companies offered cash back offer on such transactions. The government is also providing special offers to encourage and create awareness. The government after demonetization spent 94 crore rupees on advertisements to popularize digital and cashless transactions. Thus digital transaction is simple and convenient means on one hand and it is a necessity for rapidly emerging Indian economy on the other hand.

Important Points

- The simple meaning of cashless transaction is economic transaction without cash.
- This transaction is made by means of credit card, ATM cum debit card, internet banking and

cheques.

- E-commerce or E-business is a newly developed technique in which trade is conducted by means of internet.
- The simplest mode of cashless payment is through cheque or draft.
- By means of e-wallet, payment of bills can be made easily from home. Recently government of India has launched BHIM App.
- USSD technique can be used by simple mobile phone, with out the use of smartphone or internet.
- By aadhar (AEPS) the payment is done by fingers scanned on micro ATM.
- Cashless transaction helps in regulating illegal activities.
- Cashless transaction is introduced with the objective to control black-marketing, restricts the hoarding of goods.
- Recently the Government of India to control black marketing and fake notes announced the demonetization of all 500 and 1000, which means that the legal tender of currency units was declared invalid.
- The Government to encourage digital transaction is not only creating awareness but also providing special offers.

Exercise Questions

Objective Type Questions :-

1. Saving of time and money is possible in
(A) Barter system
(B) Monetary system
(C) Cash transaction
(D) Cashless transactions
2. Which of the following is called cashless transaction -
(A) Cash payment
(B) Payment by cheque
(C) Payments by only in big note
(D) Payment only by coins.
3. Which of the following techniques is not used by

bank in online payments -

- (A) NTGS (B) NEFT
(C) RTGS (D) IMPS
4. In which of these following digital transaction internet facility is not necessary -
(A) Internet banking (B) E-wallet
(C) Swipe card (D) USSD Technique
5. Which of the following was the digital APP launched by Government of India
(A) Digital App (B) BHARAT App
(C) BHIM App (D) PAYMENT App
6. Which of these following method is the traditional method of cashless transaction -
(A) E-wallet
(B) Internet Banking
(C) Cheque or Draft
(D) Credit / Debit card

Very Short Answer Type Questions :-

1. Write the meaning of cashless transaction.
2. From where is cheque book received ?
3. From where is any type of mobile app downloaded?
4. Write any one method of online payment by bank.
5. Write the expanded form of BHIM App.

Short Answer Type Questions :-

1. Give any four modes of cashless transactions.
2. Write a short note on the utility of cashless transactions.
3. Give the definition of e-commerce.
4. What precautions are necessary in digital transactions?
5. Give any four limitations of cashless transactions.

Essay Type Questions :-

1. How are the methods of digital payment helpful in e-commerce ?
2. What is cashless transaction? Explain its important modes of payments in detail.
3. Give the meaning of cashless transaction? Explain

its benefits in detail and also write its limitations.

4. Write short notes on -

- (i) E-wallet (ii) USSD
- (iii) AEPS (iv) NEFT

Answer Table

1	2	3	4	5	6
D	B	A	D	C	C

Glossary

- Average Fixed Cost- Total cost divided by output.
- Aggregate supply curve- The curve which depicts the amount of goods sold and produced by the producer at various prices.
- Aggregate-demand curve- The curve depicts the demand of goods and services by the consumer, investor, government and foreign consumers at various prices.
- Average Product (AP)-The total product divided by quantity of the variable input used.
- Average Revenue (AR)- Total revenue divided by quantity sold.
- Average Total Cost (ATC)- Total cost divided by output also equals $AFC+AVC$
- Average Variable cost (AVC) Total variable cost divided by output.
- Break even point- The point where total revenue is equal to total cost and profits are zero.
- Budget Constraint- The purchase limit of the quantity of a commodity which is determined by the limited income of a consumer and price of the good.
- Budget deficit- When the income of government received from tax is less than its expenditure.
- Central Bank - Is the apex bank which controls and regulates the entire banking system.
- Circular flow of income - The flow of goods and income expenditure between household and business firms.
- Close economy- When the economy of a country does not have any exports and imports with other country.
- Concept of Marginal- The central unifying theme in all micro economics, according to which the total net benefit is maximized when the marginal benefit is equal to marginal cost.
- Cost- Expenditure by the producer on production of a commodity.
- Consumer equilibrium- The point at which utility or satisfaction is maximum.
- Consumption Cost- The expenditure on goods and services by the household sector.
- Cross price elasticity of demand- The percentage change in quantity purchased of a commodity divided by the percentage change in price of another commodity.
- Demand curve- Demand curve depicts the relationship between the price of a commodity and the quantity demanded.
- Demand deposit- the deposits of the people with the banks which can be withdrawn on demand.
- Diminishing marginal utility of money - The decline in the extra utility received from increase in each income rupee.
- Economic resources- Resources that are limited in supply or are scarce and command a price.
- Economics- A field of study that deals with the allocation of scarce resources among alternatives uses to satisfy human wants.
- Efficiency- The situation where the price of a commodity equals to the marginal cost of producing the commodity.
- Elasticity- the measure of responsiveness of a determining variable of other quantity demanded or supplied.
- Excess Demand- The amount of the quantity demanded of a commodity is larger than the quantity supplied of the commodity at below equilibrium price.
- Excess Supply- the amount by which quantity supplied of a commodity is larger than quantity demanded of a commodity at above equilibrium price.

- Exchange- The mutual transactions of goods and services.
- Exchange rate- The prices of a unit of a foreign currency in terms of domestic currency.
- Explicit Costs- The actual expenditure of the firm to purchase the inputs.
- Firm- An organization that combines and organizes resources for the purpose of producing goods and services for sale.
- Giffen Goods- An inferior good for which the positive substitution effect is smaller than the negative income effects, so less good is purchased when its price falls.
- Gross Domestic Product- The final market value of all goods and services produced in a country in the year.
- Human wants- all the goods, services and the condition of life that an individual desires.
- Implicit Cost- The value of the inputs owned and used by the firms, value is imputed from the best alternatives using inputs.
- Indifference Curve- A curve which shows various combinations of two commodities which yield equal level of satisfaction and consumer remains indifferent between them.
- Inferior Goods- A good which a consumer purchases less with increase in income.
- Inflation- Increase in general price level in an economy.
- Investment- Expenditure on capital goods and inventories.
- Law of demand- Shows the inverse relationship between price and quantity demanded other things remaining constant.
- Law of Supply- Shows the positive relationship between price and quantity supplied, other things remaining constant.
- Long-run The time period when all inputs can be varied.
- Macro Economics- the study of aggregate economic variables of an economy.
- Marginal rate of Substitution- The amount of a good that a consumer is willing to give up for an additional unit of another good.
- Marginal Revenue The change in total revenue per unit change in quantity sold.
- Marginal Utility- The extra utility received from consuming one additional unit of a good.
- Market- An institutional arrangement under which buyers and sellers can exchange some quantity of a good or service at a mutual agreeable price.
- Market equilibrium A situation when demand for a commodity is equal to its supply.
- Micro economics- The study of a small or an individual unit.
- Mixed economy- An economy characterized by private enterprise and government regulations
- Monetary Policy- The policy makers of central banks adopt measures to control the supply of money.
- Money- A legal and general acceptable commodity which is used by public for purchase of goods and services.
- Money Supply- Available amount of money in an economy.
- Monopolistic Competition- The situation where there are many firms producing differentiated products.
- Net Exports Net exports are deductions of total imports value from total exports value of a country.
- Non Price Competition Competition based on advertisement and product differentiation rather than on price.
- Normal Good A good which the consumer

purchases more with an increase in income.

- Oligopoly The form of market organization in which few firms are producing / selling either a homogenous or a different product.
- Open economy An economy which has interactions with other economies.
- Ordinal Utility The rankings of the utility received by an individual from consuming various amounts of goods.
- Perfectly Competitive market A market where there are large numbers of buyers and sellers, no one can affect the price of a commodity.
- Price Elasticity of demand The percentage change in the quantity demanded of a commodity divided by the percentage change in its price.
- Production The transformation of resources or inputs into outputs of goods and services.
- Production Possibility Curve Shows the alternative combinations of commodities that a nation can produce by fully utilizing all its resources with best technology available to it.
- Reserve Ratio The part of deposits which bank keeps with it in the form of reserves.
- Shut down point The output level at which price equals average variable cost and losses equal total fixed costs, whether the firm produce or not beside this MC equals to $(MC = AVC)$ lowest point of AVC.
- Substitutes Two goods are substitutes if an increase in the price of one of them leads to more purchase of the other.
- Supply Curve The figure which shows the price and quantity supplied.
- Total Fixed Cost The expenditure incurred on fixed factors.
- Total Revenue The price of commodities times the quantity sold of the commodity.
- Total Utility The amount of satisfaction received from consumption of all the units of a commodities.
- Util The arbitrary unit of measure of utility.
- Utility The power of a commodity to satisfy human wants.
- Variable inputs The factors of production which can be varied easily during a fixed period of time.

