

**FINANCIAL CONTAGION DUE TO DEMONETIZATION?
EVIDENCE FROM THE REAL ECONOMY SECTORS OF INDIA**

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A project report submitted

in partial fulfillment of the requirement for the award of the degree of

MASTER OF ARTS

IN

GENERAL ECONOMICS



May 2025

MADRAS SCHOOL OF ECONOMICS

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ABSTRACT

This study examines financial contagion effects following India's 2016 demonetization by analyzing sectoral return dynamics. The research identifies a distinct crisis period marked by increased volatility, during which the policy shock propagated through domestic markets. Findings reveal significant financial contagion across seven of nine real economy sectors, with heightened return co-movement during the full crisis period and eight out of nine sectors in the short run. The Energy and Real estate sectors demonstrated resilience to this contagion, maintaining independent performance trajectories in the long run of the identified crisis period, however in the short run time period of the crisis, Real estate sector experienced the financial contagion. These results provide compelling evidence of asymmetric shock transmission during liquidity crises. While most sectors became financially interconnected, certain industries exhibited structural resilience. For investors, the findings highlight critical diversification challenges during policy-induced crises.