KARPAGAM ACADEMY OF HIGHER EDUCATION

(Deemed to be University Established Under Section 3 of UGC Act 1956)

Coimbatore – 641 021.

	Semester II
	L T P C
17CMU202 **BUSINESS MATHEMATICS AND STATISTICS**	6 2 - 6

Course Objective

Business Mathematics and Statistics represents the understanding of essentials of matrices and basics of Mathematics of Finance, Differential calculus, Uni- variate analysis and bi-variate analysis. It is also explains the time based data, Index numbers and Time series analysis.

Program Outcome

The objective of this course is to familiarize students with the applications of mathematics and statistical techniques in business decision-making.

1. Use of simple calculator is allowed.
2. Proofs of theorems / formulae are not required.
3. Trigonometric functions are not to be covered.

Unit I: Matrices & Basic Mathematics of Finance

Definition of a matrix. Types of matrices; Algebra of matrices. Calculation of values of determinants up to third order; Adjoint of a matrix; Finding inverse of a matrix through ad joint; Applications of matrices to solution of simple business and economic problems- Simple and compound interest Rates of interest – nominal, effective and continuous – their interrelationships; Compounding and discounting of a sum using different types of rates

Unit II: Differential Calculus

Mathematical functions and their types – linear, quadratic, polynomial; Concepts of limit and continuity of a function; Concept of differentiation; Rules of differentiation – simple standard forms. Applications of differentiation – elasticity of demand and supply; Maxima and Minima of functions (involving second or third order derivatives) relating to cost, revenue and profit.

Unit III: Uni-variate Analysis

Measures of Central Tendency including arithmetic mean, geometric mean and harmonic mean: properties and applications; mode and median. Partition values - quartiles, deciles, and percentiles. Measures of Variation: absolute and relative. Range, quartile deviation and mean deviation; Variance and Standard deviation: calculation and properties.

Unit IV: Bi-variate Analysis

Simple Linear Correlation Analysis: Meaning, and measurement. Karl Pearson's co-efficient and Spearman's rank correlation Simple Linear Regression Analysis: Regression equations and estimation. Relationship between correlation and regression coefficients

Unit V: Time-based Data: Index Numbers and Time-Series Analysis

Meaning and uses of index numbers; Construction of index numbers: Aggregative and average of relatives – simple and weighted, Tests of adequacy of index numbers, Construction of consumer price indices. Components of time series; additive and multiplicative models; Trend analysis: Finding trend by moving average method and Fitting of linear trend line using principle of least squares

Suggested Readings:

Text Books

1. N. D. Vohra.(2013) *Business Mathematics and Statistics*. [Reprint]. New Delhi, McGraw Hill Education (India) Pvt Ltd.

Reference Books

1. Mizrahi and John Sullivan. (2013). *Mathematics for Business and Social Sciences* [7th Edition] India, Wiley and Sons.
2. Budnick, P. (2011). *Applied Mathematics*.[4th Edition]. New Delhi, McGraw Hill Publishing Co.
3. J.K. Thukral. (2011). *Mathematics for Business Studies* [15th Edition]. Chennai, Mayur Publications
4. J. K. Singh. (2010). Business *Mathematics*. New Delhi, Himalaya Publishing House.
5. J. K. Sharma. (2013). *Business Statistics[*3rd Edition]. New Delhi, Pearson Education..
6. S.P. Gupta and Archana Gupta. (2013). *Elementary Statistics.* [7th Edition] New Delhi, Sultan Chand and Sons.
7. Richard Levin and David S. Rubin. (2015). *Statistics for Management*[7th Edition] New Delhi, Prentice Hall of India,.
8. M.R. Spiegel. (2013).*Theory and Problems of Statistics* [4th Edition] New Delhi,. McGraw Hill Publishing Co.

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LECTURE PLAN
DEPARTMENT OF MATHEMATICS

STAFF NAME   : R. PRAVEEN KUMAR
SUBJECT NAME : BUSINESS MATHEMATICS & STATISTICS
SUB.CODE   :17CMU202   SEMESTER: II
CLASS   : I B. Com

S.No	Lecture Duration Period	Topics to be covered	Support Material/Page Nos
		UNIT I	
1.	1	Introduction and Definition of a matrix.	T1:Chap: Pg.No:1.1-1.2
2.	1	Types of matrices; Algebra of matrices	T1:Chap:1:Pg.No:1.3-1.6
3.	1	Calculation of values of determinants up to third order;	T1:Chap:1:Pg.No:1.6-1.10
4.	1	**Tutorial-I**	
5.	1	Adjoint of a matrix	R9:Chap:1:Pg.No:5-7
6.	1	Finding inverse of a matrix through ad joint	T1:Chap:1:Pg.No:1.9-1.10
7.	1	Finding inverse of a matrix through ad joint	T1:Chap:1:Pg.No: 1.13-1.14
8.	1	**Tutorial-II**	
9.	1	Continuation on Finding inverse of a matrix through ad joint	T1:Chap:1:Pg.No:1.13-1.14
10.	1	Applications of matrices to solution of simple business and economic problems	T1:Chap:4:Pg.No:4.1-4.2
11.	1	Simple and compound interest Rates of interest	T1:Chap:4:Pg.No:4.3-4.4
12.	1	**Tutorial-III**	
13.	1	Continuation on Simple and compound interest Rates of interest	T1:Chap:4:Pg.No:4.12-4.15
14.	1	Continuation on Simple and compound interest Rates of interest	T1:Chap:4:Pg.No:4.32-4.35
15.	1	Nominal, effective and continuous Compounding and discounting of a sum using different types of rates	T1:Chap:4:Pg.No:4.4-4.8
16.	1	**Tutorial-IV**	
17.	1	Continuation on nominal, effective and continuous	T1:Chap:4:Pg.No:4.9-

		Compounding	4.12
18.	1	Problems on Compounding and discounting of a sum using different types of rates	T1:Chap:4:Pg.No:4.13 -4.16
19.	1	**Tutorial-V**	
20.	1	Problems on Compounding and discounting of a sum using different types of rates	T1:Chap:4:Pg.No: 4.26-4.28
21.	1	Continuation on Compounding and discounting of a sum using different types of rates	T1:Chap:4:Pg.No:4.17 -4.21
22.	1	Continuation on Compounding and discounting of a sum using different types of rates	T1:Chap:4:Pg.No: 4.29-4.31
23.	1	**Tutorial-VI**	
24.	1	Recapitulation & discussion of possible questions	
Total No of Hours Planned For Unit I = 24			
UNIT II			
1	1	Introduction of Mathematical Functions	T1:Chap:2:Pg.No:2.3- 2.4
2	1	Types of Mathematical Functions: linear,quadratic,polynomial formula and its problems	T1:Chap:2:Pg.No:2.4- 2.5
3	1	Concept of limit of a function	R9:Chap:6:Pg.No:247 -250
4	1	**Tutorial-I**	
5	1	Concept of Continuity of a function	R9:Chap:6:Pg.No:255 -259
6	1	Continuation on Concept of Continuity of a function	R9:Chap:6:Pg.No:260 -263
7	1	Concept of differentiation	R9:Chap:6:Pg.No:267 -270
8	1	**Tutorial-II**	
9	1	Problems on differentiation	R9:Chap:6:Pg.No:271 -273
10	1	Continuation of Problems on differentiation	R9:Chap:6:Pg.No:274 -276
11	1	Rules of differentiation- simple standard forms	T1:Chap:2:Pg.No:2.6- 2.7
12	1	**Tutorial-III**	
13	1	Continuation of rules of differentiation- simple standard forms	T1:Chap:2:Pg.No:2.8- 2.10
14	1	Applications of Differentiation	R9:Chap:6:Pg.No:282 -284
15	1	Applications of Differentiation in elasticity of demand and supply	R9:Chap:6:Pg.No:285 -286
16	1	**Tutorial-IV**	
17	1	Maxima and Minima of functions	R9:Chap:6:Pg.No:287 -286
18	1	Maxima and Minima of functions (involving second	R9:Chap:6:Pg.No:288

		order derivatives) relating to cost, revenue and profit	-290
19	1	**Tutorial-V**	
20	1	Continuation on Maxima and Minima of functions (involving second order derivatives) relating to cost, revenue and profit	R9:Chap:6:Pg.No:290 -292
21	1	Maxima and Minima of functions (involving third order derivatives) relating to cost, revenue and profit	R9:Chap:6:Pg.No:293 -294
22	1	Problems on Maxima and Minima of functions (involving third order derivatives) relating to cost, revenue and profit	R9:Chap:6:Pg.No:295 -296
23	1	**Tutorial-VI**	
24	1	Recapitulation & discussion of possible questions	
Total No of Hours Planned For Unit II = 24			
UNIT III			
1	1	Introduction on Measures of Central Tendency including arithmetic mean and its problems	R7:Chap:3:Pg.No:77- 83
2	1	Measures of Central Tendency including geometric mean and its problems	R7:Chap:3:Pg.No:92- 96
3	1	Measures of Central Tendency including harmonic mean and its problems	R5:Chap:3:Pg.No:101 -102
4	1	**Tutorial-I**	
5.	1	properties and applications	R7:Chap:3:Pg.No:84- 86
6.	1	Mode and median and its problems	T1:Chap:5:Pg.No:5.6- 5.8
7.	1	Partition values – quartiles and its problems	R5:Chap:3:Pg.No:105 -106
8.	1	**Tutorial-II**	
9.	1	Partition values –deciles and its problems	R5:Chap:3:Pg.No:107 -108
10.	1	Partition values –percentiles and its problems	R5:Chap:3:Pg.No:109 -111
11.	1	Measures of Variation: absolute and relative.	R5:Chap:3:Pg.No:128 -129
12.	1	**Tutorial-III**	
13.	1	Continuation on problems of absolute and relative	R5:Chap:3:Pg.No:130 -131
14.	1	Range and quartile deviation definition and its problems	R7:Chap:3:Pg.No:113 -115
15.	1	Problems on Range	R5:Chap:4:Pg.No:131 -132
16.	1	**Tutorial-IV**	
17.	1	Problems on quartile deviation	R5:Chap:4:Pg.No:132 -134

18.	1	Mean deviation related problems	R5:Chap:3:Pg.No:135-137
19.	1	Variance and Standard deviation: problems and properties	R5:Chap:4:Pg.No:138-141
20.	1	**Tutorial-V**	
21.	1	Continuation on Variance and Standard deviation: problems and properties	R7:Chap:5:Pg.No:123-125
22.	1	Continuation on Variance and Standard deviation: problems and properties	R7:Chap:5:Pg.No:126-127
23.	1	**Tutorial-VI**	
24.	1	Recapitulation & discussion of possible questions	
	Total No of Hours Planned For Unit III = 24		
	UNIT-IV		
1	1	Introduction on Simple Linear Correlation Analysis	R5:Chap:13:Pg.No:452-453
2	1	Meaning and measurement of Correlation	R5:Chap:13:Pg.No:454-455
3	1	Karl Pearson's co-efficient problems	T1:Chap:6:Pg.No:6.5-6.7
4	1	**Tutorial-I**	
5.	1	Continuation of problems on Karl Pearson's co-efficient	T1:Chap:6:Pg.No:6.8-6.10
6.	1	Problems on Karl Pearson's co-efficient	R5:Chap:13:Pg.No:458-459
7	1	Continuation on Problems of Karl Pearson's co-efficient	R5:Chap:13:Pg.No:459-460
8.	1	**Tutorial-II**	
9.	1	Spearman's rank correlation problems	R5:Chap:13:Pg.No:466-467
10.	1	Continuation of problems on Spearman's rank correlation	R5:Chap:13:Pg.No:468-469
11.	1	Continuation of Problems on Spearman's rank correlation	R5:Chap:13:Pg.No:470-471
12	1	**Tutorial-III**	
13.	1	Continuation of Problems on Spearman's rank correlation	R5:Chap:13:Pg.No:472-473
14.	1	Simple Linear Regression Analysis: Regression equations	T1:Chap:7:Pg.No:7.1-7.3
15.	1	Problems on Simple Linear Regression Analysis: Regression equations	T1:Chap:7:Pg.No:7.4-7.5
16.	1	**Tutorial-IV**	
17.	1	Problems on Simple Linear Regression Analysis: Regression equations and estimation	T1:Chap:7:Pg.No:7.6-7.7

18	1	Relationship between correlation and regression coefficients	T1:Chap:7:Pg.No:7.9-7.11
19.	1	Continuation on Relationship between correlation and regression coefficients	R5:Chap:13:Pg.No:610-611
20.	1	**Tutorial-V**	
21.	1	Continuation on problems on correlation and regression coefficients	T1:Chap:7:Pg.No:7.11-7.13
22.	1	Continuation on problems on correlation and regression coefficients	T1:Chap:7:Pg.No:7.14-7.15
23.	1	**Tutorial-VI**	
24.	1	Recapitulation & discussion of possible questions	
Total No of Hours Planned For Unit IV = 24			
UNIT-V			
1	1	Introduction on index numbers Meaning and its uses	R5:Chap:17:Pg.No:594-598
2	1	Construction of index numbers	R5:Chap:17:Pg.No:598-602
3	1	**Tutorial-I**	
4	1	Aggregative and average of relatives simple and weighted related problems	R7:Chap:16:Pg.No:879-881
5	1	Continuation on aggregative and average of relatives simple and weighted related problems	R7:Chap:16:Pg.No:882-887
6	1	**Tutorial-II**	
7	1	Tests of adequacy of index numbers	R5:Chap:17:Pg.No:617-619
8	1	Construction of consumer price indices.	R5:Chap:17:Pg.No:620-622
9	1	**Tutorial-III**	
10	1	Components of time series; additive and multiplicative models	T1:Chap:8:Pg.No:8.1-8.3
11	1	Continuation on Components of time series; additive and multiplicative models	T1:Chap:8:Pg.No:8.4-8.5
12	1	Trend analysis: Finding trend by moving average method	T1:Chap:8:Pg.No:8.18-8.24
13	1	**Tutorial-IV**	
14	1	Problems on Finding trend by moving average method	T1:Chap:8:Pg.No:8.25-8.27
15	1	Continuation on Problems on Finding trend by moving average method	T1:Chap:8:Pg.No:8.27-8.28
16	1	Continuation on Problems on Finding trend by moving average method	T1:Chap:8:Pg.No:8.29-8.30
17	1	**Tutorial-V**	
18	1	Fitting of linear trend line using principle of least squares	R7:Chap:15:Pg.No:8.21-8.22

19	1	Continuation on Fitting of linear trend line using principle of least squares	R7:Chap:15:Pg.No:8.23-8.25
20	1	**Tutorial-VI**	
21	1	Recapitulation & discussion of possible questions	
22	1	Disscussion of previous ESE question papers	
23	1	Disscussion of previous ESE question papers	
24	1	Disscussion of previous ESE question papers	
Total No of Hours Planned For Unit V = 24			
Total Planned Hours : 120			

SUGGESTED READINGS

Text Books

T1 :   N. D. Vohra.(2013) *Business Mathematics and Statistics*. [Reprint]. New Delhi, McGraw Hill Education (India) Pvt Ltd.

Reference Books

R1: Mizrahi and John Sullivan. (2013). *Mathematics for Business and Social Sciences* [7th Edition] India, Wiley and Sons.

R2:   Budnick, P. (2011). *Applied Mathematics*.[4th Edition]. New Delhi, McGraw Hill Publishing Co.

R3:   J.K. Thukral. (2011). *Mathematics for Business Studies* [15th Edition]. Chennai, Mayur Publications

R4:   J. K. Singh. (2010). Business *Mathematics*. New Delhi, Himalaya Publishing House.

R5:   J. K. Sharma. (2013). *Business Statistics[*3rd Edition]. New Delhi, Pearson Education..

R6:   S.P. Gupta and Archana Gupta. (2013). *Elementary Statistics.* [7th Edition] New Delhi, : Sultan Chand and Sons.

R7:   Richard Levin and David S. Rubin. (2015). *Statistics for Management*[7th Edition] New Delhi, Prentice Hall of India,.

R8:   M.R. Spiegel. (2013).*Theory and Problems of Statistics* [4th Edition] New Delhi. McGraw Hill Publishing Co.

R9**:**   Navainitham Pa.(2004).Business Mathematics & Statistics(3rd edition),Jai Publishers,India

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COURSE CODE: 17CMU202	UNIT: I	BATCH-2017-2020

UNIT – I

SYLLABUS

Matrices & Basic Mathematics of Finance
Definition of a matrix. Types of matrices; Algebra of matrices. Calculation of values of determinants up to third order; Adjoint of a matrix; Finding inverse of a matrix through ad joint; Applications of matrices to solution of simple business and economic problems- Simple and compound interest Rates of interest – nominal, effective and continuous – their interrelationships; Compounding and discounting of a sum using different types of rates

Matrix

An array of **mn** numbers arranged in **m** rows and **n** columns and bounded by square bracket [ ] brackets ( ) or || || is called **m** by **n** matri*x* and is represented as

$$A = \begin{bmatrix} a_{11} & a_{12} & .... & a_{1n} \\ a_{21} & a_{22} & ... & a_{2n} \\ a_{31} & a_{32} & ... & a_{3n} \\ .... & .... & .... & .... \\ a_{i1} & a_{i2} & ... & a_{in} \\ .... & .... & .... & .... \\ a_{m1} & a_{m2} & ... & a_{mn} \end{bmatrix} = \begin{pmatrix} a_{11} & a_{12} & ... & a_{1n} \\ a_{21} & a_{22} & ... & a_{2n} \\ .... & .... & .... & .... \\ a_{i1} & a_{i2} & .... & a_{in} \\ .... & .... & .... & .... \\ a_{m1} & a_{m2} & .... & a_{mn} \end{pmatrix} \qquad …(1)$$

(1) is known as m × n matri*x* in which there are m rows and n columns.Each member of   m × n matri*x* is known as an element of the matri*x*.

Note:

1. In general, we denote a Matrix by capital letter A = [a$_{ij}$], where a$_{ij}$ are elements of Matrix in which its position is in ith row and jth column i.e. first suffix denote row number and second suffix denote column number.

2. The elements a_{11}, a_{22},..., a_{nn} in which both suffix are same called diagonal elements, all other elements in which suffix are not same are called non diagonal elements.

3. The line along which the diagonal element lie is called the Principal Diagonal.

Different types of Matrices

Zero Matrix or Null Matrix. A Matrix in which each elements is equal to zero is called a zero matrix or null matrix.

e.g., $\begin{pmatrix} 0 & 0 & 0 \\ 0 & 0 & 0 \end{pmatrix}$ or $\begin{pmatrix} 0 & 0 \\ 0 & 0 \\ 0 & 0 \end{pmatrix}$ or $\begin{pmatrix} 0 & 0 & 0 \\ 0 & 0 & 0 \\ 0 & 0 & 0 \end{pmatrix}$

are zero matrix respectively of order 2 × 3; 3×2 and 3×3.

In general we denote zero matrix of order m× n by $O_{m \times n}$. Matrix other than Zero Matrix are called Non- Zero Matrix.

Square matrix. Matrix in which number of row becomes equal to number of column is called square matrix i.e.

If matrix A is of type m × n, where m = n then the matrix is called square matrix otherwise it is called rectangular matrix.

Row Matrix. A matrix of type $1 \times n$, having only one row is called row matrix. For example $\begin{pmatrix} 1 & -2 & 3 \end{pmatrix}$ is a row matrix.

Column Matrix. A matrix of type $m \times 1$, having only one column is called column matrix. For example $\begin{pmatrix} 1 \\ -2 \\ 3 \end{pmatrix}$ is a column matrix.

Diagonal Matrix. A square matrix in which all non diagonal elements are equal to zero is called diagonal matrix i.e.

A square matrix $A = [a_{ij}]$, is diagonal matrix if $a_{ij} = 0$ for $i \neq j$. Thus

$\begin{pmatrix} 2 & 0 \\ 0 & -1 \end{pmatrix}$ or $\begin{pmatrix} 2 & 0 & 0 \\ 0 & -7 & 0 \\ 0 & 0 & 3 \end{pmatrix}$ are diagonal matrices.

Scalar Matrix. Diagonal matrices in which all diagonal elements are equal are called scalar matrix i.e.

A square matrix $A = [a_{ij}]$, is scalar matrix if $a_{ij} = 0$ for $i \neq j$ and $a_{ij} = k$, for $i = j$ .Thus

$\begin{pmatrix} 2 & 0 & 0 \\ 0 & 2 & 0 \\ 0 & 0 & 2 \end{pmatrix}$ is scalar matrix.

Unit Matrix or Identity Matrix. A scalar matrix in which all diagonal elements are unity are called Unit matrix or Identity matrix generally denoted by I_n.

A square matrix $A = [a_{ij}]$, is Identity matrix if $a_{ij} = 0$ for $i \neq j$ and $a_{ij} = 1$, for $i = j$ .Thus

$\begin{pmatrix} 1 & 0 & 0 \\ 0 & 1 & 0 \\ 0 & 0 & 1 \end{pmatrix}$, is identity matrix of order 3×3.

Triangular matrix are of two types:
(a) Upper Triangular Matrix. It is a matrix in which all elements below the principal diagonal are zero

e.g. $\begin{pmatrix} 2 & 4 & 8 \\ 0 & -7 & -3 \\ 0 & 0 & 3 \end{pmatrix}$

(b) Lower Triangular Matrix. It is a Matrix in which all elements above the principal diagonal are zero

e.g. $\begin{pmatrix} 2 & 0 & 0 \\ 4 & -7 & 0 \\ -6 & 5 & 3 \end{pmatrix}$

Sub Matrix: A matrix B obtained by deleting some rows or some column or both of a matrix A, is called a sub matrix of A.

For example. If $A = \begin{pmatrix} 2 & 1 & 5 \\ 0 & -7 & 9 \\ -3 & 4 & 3 \end{pmatrix}$ then the matrices $\begin{pmatrix} 2 & 1 \\ 0 & -7 \end{pmatrix}, \begin{pmatrix} 2 & 1 & 5 \\ 0 & -7 & 9 \end{pmatrix}$ etc. are sub matrix of A.

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Transpose of a matrix

If matrix A is of type m × n, then the matrix obtained by interchanging the rows and the columns of A is known as Transpose of Matrix A, denoted by A$'$ or A^T i.e.

A= [a$_{ij}$] of m × n order then

A$'$ or A^T=[a$_{ji}$] of n × m order Matrix,

Now if A', B' be the transpose of matrix A and B respectively, then

(i)   A = (A$'$)$'$ i.e. the transpose of transpose of a matri*x* A is matri*x* A itself.

(ii) $(A + B)' = A' + B'$ i.e. the transpose of the sum of two matrices is equal to the sum of their transposes.

(iii) $(kA)'$=k A$'$, where k is a scalar.

(iv) $(AB)' = B'A'$ i.e. the transpose of the product of two matrices is equal to the product of their transposes, taken in reversed order.

Conjugate of a Matrix

If A be a matrix of order m × n, over complex number system, then the matrix obtained from A by replacing each of its elements by their corresponding complex conjugates is called the conjugate of A and is denoted by $\overline{A}$, where $\overline{A}$ is also of same order m × n. If $\overline{A}$, $\overline{A}$ be the conjugate matrices of A, B respectively, then

(i) $\overline{(\overline{A})} = A$.

(ii) $\overline{(A + B)} = \overline{A} + \overline{B}$, where A and B are conformable for addition.

(iii) $\overline{(kA)} = \overline{k}.\overline{A}$, where k is any complex number.

(iv) $\overline{AB} = \overline{A}.\overline{B}$, where A and B are conformable for multiplication.

Transpose Conjugate of a Matrix

The transpose of the conjugate or conjugate of the transpose of a matrix A is called Transpose conjugate of A and is denoted by A^θ . Thus

$A^\theta = (\overline{A})' = \overline{(A')}$.

If A^θ, B^θ denote the transposed conjugate of A, B respectively, then

(i) $(A^\theta)^\theta = A$.

(ii) $(A + B)^\theta = A^\theta + B^\theta$, where A and B are conformable for addition.

(iii) $(kA)^\theta = \overline{k}.A^\theta$, where k is any complex number.

(iv) $(AB)^\theta = B^\theta.A^\theta$, where A and B are conformable for multiplication.

Adjoint of a Square Matrix

If A is an n- rowed square matrix, then adjoint of A is defined as a transpose of matrix obtained by replacing each of its elements by its cofactors.

Theorem 1.1: If A be an n-square matrix, then A(adj. A)= (adj.A)A=$|A|I_n$, where I_n denotes the unit matrix of order n.

Theorem 1.2: If A and B are square matrix of the same order n, then adj. (AB)=(adj.B)(adj.A) .

Inverse of Square Matrix

Let A be n-square matrix, if there exist an n-square matrix B such that

$AB = BA = I_n$, then the matrix A is called invertible and the matrix B is called inverse of A. Inverse of a square matrix is denoted by A^{-1}.

 Note. 1. From definition it is clear that A is the inverse of B.

      2. A non-square matrix does not have any inverse.

Singular and Non Singular Matrices

A square matrix A is said to be singular or non singular according as $|A| = 0$ or $|A| \neq 0$.

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Orthogonal Matrix

Any square matrix A is said to be orthogonal if $AA^{'} = A^{'}A = I$, this indicates that the row vectors (column vectors) of an orthogonal matrix A are mutually orthogonal unit vectors.

Unitary Matrix

Any square A with complex elements is said to be unitary if $A.A^{\theta} = A^{\theta}A = I$.

Symmetric And Skew Symmetric Matrices

Symmetric Matrix

A square matrix $A = [a_{ij}]$ is said to be symmetric if $a_{ij} = a_{ji}$ for all i and j.

Examples
$$\begin{bmatrix} a & h & g \\ h & b & f \\ g & f & c \end{bmatrix}, \begin{bmatrix} 1 & 2 & 3 \\ 2 & 5 & 4 \\ 3 & 4 & 7 \end{bmatrix}$$

Skew Symmetric Matrix

If a square matrix A has its elements such that $a_{ij} = -a_{ji}$ for i and j and the leading diagonal elements are zeros, then matrix A is known as skew matrix. For example
$$\begin{bmatrix} 0 & 2 & -3 \\ -2 & 0 & 1 \\ 3 & -1 & 0 \end{bmatrix}, \begin{bmatrix} 0 & h & g \\ -h & 0 & -f \\ -g & f & 0 \end{bmatrix}$$
are skew symmetric matrices.

Example

Some examples of matrices are:

$$A = \begin{pmatrix} -4 & 3 & -6 & 9 \end{pmatrix}$$
$$B = \begin{pmatrix} 5 & -2 \\ 3 & -7 \end{pmatrix}$$
$$C = \begin{pmatrix} 4 & -1 & 6 \\ 2 & 7 & -4 \\ 0 & 1 & -3 \end{pmatrix}$$

1. $(A) + (B)$ Given: $A = \begin{pmatrix} 4 & -3 & 6 \\ -8 & 5 & -9 \end{pmatrix}$ $B = \begin{pmatrix} -5 & 6 & -2 \\ 3 & 7 & -4 \end{pmatrix}$

Solution:
$$A + B = \begin{pmatrix} 4 + -5 & -3 + 6 & 6 + -2 \\ -8 + 3 & 5 + 7 & -9 + -4 \end{pmatrix} \Rightarrow A + B = \begin{pmatrix} -1 & 3 & 4 \\ -5 & 12 & -13 \end{pmatrix}$$

2. $(A) - (B)$ Given: $A = \begin{pmatrix} 6 & -7 \\ -4 & 5 \\ -3 & 2 \end{pmatrix}$ $B = \begin{pmatrix} -8 & 3 \\ 3 & -1 \\ 2 & -8 \end{pmatrix}$

Solution:
$$A - B = \begin{pmatrix} 6 - -8 & -7 - 3 \\ -4 - 3 & 5 - -1 \\ -3 - 2 & 2 - -8 \end{pmatrix} \Rightarrow A - B = \begin{pmatrix} 14 & -10 \\ -7 & 6 \\ -5 & 10 \end{pmatrix}$$

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3. $5\begin{pmatrix} -4 & 3 \\ 6 & -2 \end{pmatrix} \Rightarrow$ Solution: $\begin{pmatrix} -20 & 15 \\ 30 & -10 \end{pmatrix}$

4. $(A)(B)$ Given: $A = \begin{pmatrix} 6 & -2 & 3 \\ -4 & 2 & 5 \end{pmatrix}$ $B = \begin{pmatrix} 2 & -3 \\ 4 & -5 \\ 1 & -6 \end{pmatrix}$

2. Given: $\mathbf{A} = \begin{bmatrix} 1 & 0 \\ 3 & -5 \end{bmatrix}$ and $\mathbf{B} = \begin{bmatrix} -2 & 1 \\ 4 & -3 \end{bmatrix}$

Find:

(a) $\mathbf{A} + \mathbf{B}$ $\mathbf{A} + \mathbf{B} = \begin{bmatrix} -1 & 1 \\ 7 & -8 \end{bmatrix}$

(b) $2\mathbf{A} - 3\mathbf{B}$ $2\mathbf{A} - 3\mathbf{B} = \begin{bmatrix} 8 & -3 \\ -6 & -1 \end{bmatrix}$

(c) $\mathbf{AB}$ $\mathbf{AB} = \begin{bmatrix} -2 & 1 \\ -26 & 18 \end{bmatrix}$

(d) $\mathbf{AB} + \mathbf{BA}$ $\mathbf{AB} + \mathbf{BA} = \begin{bmatrix} -1 & -4 \\ -31 & 33 \end{bmatrix}$

(e) $\mathbf{A}^T\mathbf{B}$ (where $\mathbf{A}^T$ denotes the transpose of $\mathbf{A}$)

$\mathbf{A}^T\mathbf{B} = \begin{bmatrix} 10 & -8 \\ -20 & 15 \end{bmatrix}$

(f) $\mathbf{B}^T\mathbf{A}$ $\mathbf{B}^T\mathbf{A} = \begin{bmatrix} 10 & -20 \\ -8 & 15 \end{bmatrix}$

(g) $\mathbf{A}^2\mathbf{B}$ $\mathbf{A}^2\mathbf{B} = \begin{bmatrix} -2 & 1 \\ 124 & -87 \end{bmatrix}$

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3. Given: $\mathbf{A} = \begin{bmatrix} a_1 \\ a_2 \\ a_3 \end{bmatrix}$ and $\mathbf{B} = \begin{bmatrix} b_1 & b_2 & b_3 \end{bmatrix}$

Find **AB** and **BA**

$$\mathbf{AB} = \begin{bmatrix} a_1 b_1 & a_1 b_2 & a_1 b_3 \\ a_2 b_1 & a_2 b_2 & a_2 b_3 \\ a_3 b_1 & a_3 b_2 & a_3 b_3 \end{bmatrix}$$

$\mathbf{BA} = b_1 a_1 + b_2 a_2 + b_3 a_3$ (Note, a scalar)

4. Find the determinant, all minors and cofactors, and the inverse of each of the following matrices:

(a) $\begin{bmatrix} 1 & 1 & -1 \\ 2 & 2 & 3 \\ 4 & 0 & 0 \end{bmatrix}$

Determinant = 20

Matrix of minors: $\begin{bmatrix} 0 & -12 & -8 \\ 0 & 4 & -4 \\ 5 & 5 & 0 \end{bmatrix}$

Matrix of cofactors (= signed minors): $\begin{bmatrix} 0 & 12 & -8 \\ 0 & 4 & 4 \\ 5 & -5 & 0 \end{bmatrix}$

Inverse matrix: $\begin{bmatrix} 0 & 0 & 0.25 \\ 0.6 & 0.2 & -0.25 \\ -0.4 & 0.2 & 0 \end{bmatrix}$

(b) $\begin{bmatrix} 2 & -1 & -1 \\ 2 & 0 & 3 \\ 4 & 0 & 4 \end{bmatrix}$

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Determinant: –4

Matrix of minors:
$$\begin{bmatrix} 0 & -4 & 0 \\ -4 & 12 & 4 \\ -3 & 8 & 2 \end{bmatrix}$$

Matrix of cofactors (=signed minors)
$$\begin{bmatrix} 0 & 4 & 0 \\ 4 & 12 & -4 \\ -3 & -8 & 2 \end{bmatrix}$$

Inverse matrix:
$$\begin{bmatrix} 0 & -1 & 0.75 \\ -1 & -3 & 2 \\ 0 & 1 & -0.5 \end{bmatrix}$$

(c) $\begin{bmatrix} 5 & 2 & -1 \\ 2 & -1 & 4 \\ 2 & 0 & 2 \end{bmatrix}$

Determinant: –4

Minors
$$\begin{bmatrix} -2 & -4 & 2 \\ 4 & 12 & -4 \\ 7 & 22 & -9 \end{bmatrix}$$

Cofactors (= signed minors):
$$\begin{bmatrix} -2 & 4 & 2 \\ -4 & 12 & 4 \\ 7 & -22 & -9 \end{bmatrix}$$

Inverse matrix:
$$\begin{bmatrix} 0.5 & 1 & -1.75 \\ -1 & -3 & 5.5 \\ -0.5 & -1 & 2.25 \end{bmatrix}$$

(d) $\begin{bmatrix} 10 & 5 & 1 \\ 2 & -1 & 4 \\ 4 & 0 & 4 \end{bmatrix}$

Determinant: 4

Minors:
$$\begin{bmatrix} -4 & -8 & 4 \\ 20 & 36 & -20 \\ 21 & 38 & -20 \end{bmatrix}$$

Cofactors:
$$\begin{bmatrix} -4 & 8 & 4 \\ -20 & 36 & 20 \\ 21 & -38 & -20 \end{bmatrix}$$

inverse matrix:
$$\begin{bmatrix} -1 & -5 & 5.25 \\ 2 & 9 & -9.5 \\ 1 & 5 & -5 \end{bmatrix}$$

The Cofactor Expansion for Determinants

Every square matrix has a determinant. All matrices with zero determinant are singular.
All matrices with non-zero determinant are invertible.

The determinant of a (1×1) matrix $A = \begin{bmatrix} a \end{bmatrix}$ is just $\det A = a$.

From section 2.3, the determinant of a (2×2) matrix $A = \begin{bmatrix} a & b \\ c & d \end{bmatrix}$ is $\det A = ad - bc$.

The determinants of all higher-order matrices can be expressed in terms of lower-order determinants.

Determinants and Inverse Matrices

For any set of square matrices of the same dimensions, the determinant of a product is the product of the determinants:

$\det (AB) = (\det A)(\det B)$, $\det (ABC) = (\det A)(\det B)(\det C)$,   etc.

It then follows that

$$\boxed{\det\left(A^k\right) = \left(\det A\right)^k}$$

$AA^{-1} = I \implies \det\left(AA^{-1}\right) = 1 \implies \det A \det\left(A^{-1}\right) = 1 \implies$

$$\boxed{\det\left(A^{-1}\right) = \frac{1}{\det A}}$$

The **adjugate** (or **adjoint**) of any square matrix A is the transpose of the matrix of cofactors of A:

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$$\boxed{\text{adj}(A) = \left[c_{ij}(A) \right]^{\text{T}}}$$

[The 2×2 case is $\text{adj} \begin{bmatrix} a & b \\ c & d \end{bmatrix} = \begin{bmatrix} d & -b \\ -c & a \end{bmatrix}$.]

<u>Example 1</u>

Compute adj (A), A adj (A) and det (A) for $A = \begin{bmatrix} 1 & 9 & 1 \\ 0 & 2 & 0 \\ 1 & -4 & 2 \end{bmatrix}$.

The matrix of cofactors is

$$C = \begin{bmatrix} c_{11} & c_{12} & c_{13} \\ c_{21} & c_{22} & c_{23} \\ c_{31} & c_{32} & c_{33} \end{bmatrix} = \begin{bmatrix} +\begin{vmatrix} 2 & 0 \\ -4 & 2 \end{vmatrix} & -\begin{vmatrix} 0 & 0 \\ 1 & 2 \end{vmatrix} & +\begin{vmatrix} 0 & 2 \\ 1 & -4 \end{vmatrix} \\ -\begin{vmatrix} 9 & 1 \\ -4 & 2 \end{vmatrix} & +\begin{vmatrix} 1 & 1 \\ 1 & 2 \end{vmatrix} & -\begin{vmatrix} 1 & 9 \\ 1 & -4 \end{vmatrix} \\ +\begin{vmatrix} 9 & 1 \\ 2 & 0 \end{vmatrix} & -\begin{vmatrix} 1 & 1 \\ 0 & 0 \end{vmatrix} & +\begin{vmatrix} 1 & 9 \\ 0 & 2 \end{vmatrix} \end{bmatrix} = \begin{bmatrix} 4 & 0 & -2 \\ -22 & 1 & 13 \\ -2 & 0 & 2 \end{bmatrix}$$

$$\text{adj } A = C^{\text{T}} = \begin{bmatrix} 4 & -22 & -2 \\ 0 & 1 & 0 \\ -2 & 13 & 2 \end{bmatrix}$$

$$A \text{ adj } A = \begin{bmatrix} 1 & 9 & 1 \\ 0 & 2 & 0 \\ 1 & -4 & 2 \end{bmatrix} \begin{bmatrix} 4 & -22 & -2 \\ 0 & 1 & 0 \\ -2 & 13 & 2 \end{bmatrix} = \begin{bmatrix} 2 & 0 & 0 \\ 0 & 2 & 0 \\ 0 & 0 & 2 \end{bmatrix} = 2I$$

Expand along the middle row to find det A :
det $A = 0 + 2 \times c_{22} + 0 = 2$

$$\Rightarrow \quad A^{-1} = \frac{\text{adj } A}{\text{det } A}$$

Note that A adj (A) = (det (A)) I

Associated with every square matrix is a value called the determinant. This value for a 2×2 matrix is the number that results from the difference between the products of the numbers in each diagonal of the

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matrix. If $A = \begin{pmatrix} a & b \\ c & d \end{pmatrix}$ represents any 2×2 matrix, then the determinant is the result of **ad – bc.** The determinant of **A** can be represented as detA or as $|A|$.

$$\det A = \begin{vmatrix} a & b \\ c & d \end{vmatrix} = ad - bc$$
Notation:

Examples: Find the determinant of each of the following matrices:

1. $\begin{pmatrix} 5 & 3 \\ 7 & 2 \end{pmatrix}$ 2. $\begin{pmatrix} 6 & -4 \\ 2 & -3 \end{pmatrix}$ 3. $\begin{pmatrix} 4 & -2 \\ 3 & 5 \end{pmatrix}$ 4. $\begin{pmatrix} -3 & 8 \\ -2 & -4 \end{pmatrix}$

$(5)(2)-(7)(3)$ $(6)(-3)-(2)(-4)$ $(4)(5)-(3)(-2)$ $(-3)(-4)-(-2)(8)$

$10-21$ $-18--8$ $20--6$ $12--16$

-11 -10 26 28

The inverse of a 2×2 matrix can also be determined. If $A = \begin{pmatrix} a & b \\ c & d \end{pmatrix}$ represents any 2×2 matrix, then the inverse of **A**, written as **A⁻¹**, is found by: $A^{-1} = \begin{pmatrix} \dfrac{d}{\det A} & \dfrac{-b}{\det A} \\ \dfrac{-c}{\det A} & \dfrac{a}{\det A} \end{pmatrix}$

When a 2×2 matrix is multiplied by its inverse, the result is the identity matrix $\begin{pmatrix} 1 & 0 \\ 0 & 1 \end{pmatrix}$.

Examples: Find the inverse of each of the following matrices:

1. $A = \begin{pmatrix} 3 & -2 \\ 5 & -4 \end{pmatrix}$

Solution: The first step is to find the determinant of (A).

$$|A| = -12--10$$
$$|A| = -2$$

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$$A^{-1} = \begin{pmatrix} \dfrac{-4}{-2} & \dfrac{2}{-2} \\ \dfrac{-5}{-2} & \dfrac{3}{-2} \end{pmatrix}$$

$$A^{-1} = \begin{pmatrix} \dfrac{4}{2} & \dfrac{-2}{2} \\ \dfrac{5}{2} & \dfrac{-3}{2} \end{pmatrix} or \begin{pmatrix} 2 & -1 \\ \dfrac{5}{2} & \dfrac{-3}{2} \end{pmatrix}$$

Do not leave a negative sign in the denominator of any fraction. Apply the rule for division of integers and place the resulting sign in the numerator of the fraction.

When using the inverse matrix to solve a system of linear equations, it is best to leave all the elements in fraction form. To confirm that the answer is correct, multiply the matrix by its inverse.

Check:
$$\begin{pmatrix} 3 & -2 \\ 5 & -4 \end{pmatrix}\begin{pmatrix} 2 & -1 \\ \dfrac{5}{2} & \dfrac{-3}{2} \end{pmatrix} \Rightarrow \begin{pmatrix} 6+\dfrac{-10}{2} & -3+\dfrac{6}{2} \\ 10+\dfrac{-20}{2} & -5+\dfrac{12}{2} \end{pmatrix} \Rightarrow \begin{pmatrix} 6-5 & -3+3 \\ 10-10 & -5+6 \end{pmatrix} \Rightarrow \begin{pmatrix} 1 & 0 \\ 0 & 1 \end{pmatrix}$$

The product of $(A) \times (A)^{-1}$ is the identity matrix. Therefore the inverse matrix is correct.

2. $$A = \begin{pmatrix} 2 & -6 \\ 1 & 3 \end{pmatrix}$$

Solution: The first step is to find the determinant of (A).

$|A| = 6 - -6$
$|A| = 12$

$$A^{-1} = \begin{pmatrix} \dfrac{3}{12} & \dfrac{6}{12} \\ \dfrac{-1}{12} & \dfrac{2}{12} \end{pmatrix} \ or A^{-1} = \begin{pmatrix} \dfrac{1}{4} & \dfrac{1}{2} \\ \dfrac{-1}{12} & \dfrac{1}{6} \end{pmatrix}$$

When using the inverse matrix to solve a system of linear equations, it is best to leave all of the elements in fraction form with the same common denominator as shown in the first inverse rather than as reduced fractions as shown in the second inverse.

Check:
$$\begin{pmatrix} 2 & -6 \\ 1 & 3 \end{pmatrix}\begin{pmatrix} \dfrac{3}{12} & \dfrac{6}{12} \\ \dfrac{-1}{12} & \dfrac{2}{12} \end{pmatrix} \Rightarrow \begin{pmatrix} \dfrac{6}{12}+\dfrac{6}{12} & \dfrac{12}{12}-\dfrac{12}{12} \\ \dfrac{3}{12}-\dfrac{3}{12} & \dfrac{6}{12}+\dfrac{6}{12} \end{pmatrix} \Rightarrow \begin{pmatrix} \dfrac{12}{12} & \dfrac{0}{12} \\ \dfrac{0}{12} & \dfrac{12}{12} \end{pmatrix} \Rightarrow \begin{pmatrix} 1 & 0 \\ 0 & 1 \end{pmatrix}$$

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The product of $(A) \times (A)^{-1}$ is the identity matrix. Therefore the inverse matrix is correct.

The multiplication above was done using A^{-1} in which all the elements had the common denominator 12. Therefore, the resulting products could be manipulated in order to produce the identity matrix.

3. $A = \begin{pmatrix} -10 & 4 \\ 5 & 2 \end{pmatrix}$

Solution: The first step is to find the determinant of (A).

$|A| = -20 - 20$

$|A| = -40$

$$A^{-1} = \begin{pmatrix} \dfrac{2}{-40} & \dfrac{-4}{-40} \\ \dfrac{-5}{-40} & \dfrac{-10}{-40} \end{pmatrix}$$

$$A^{-1} = \begin{pmatrix} \dfrac{-2}{40} & \dfrac{4}{40} \\ \dfrac{5}{40} & \dfrac{10}{40} \end{pmatrix} \quad or\, A^{-1} = \begin{pmatrix} \dfrac{-1}{20} & \dfrac{1}{10} \\ \dfrac{1}{8} & \dfrac{1}{4} \end{pmatrix}$$

Check: $\begin{pmatrix} -10 & 4 \\ 5 & 2 \end{pmatrix} \begin{pmatrix} \dfrac{-2}{40} & \dfrac{4}{40} \\ \dfrac{5}{40} & \dfrac{10}{40} \end{pmatrix} \Rightarrow \begin{pmatrix} \dfrac{20}{40} + \dfrac{20}{40} & \dfrac{-40}{40} + \dfrac{40}{40} \\ \dfrac{-10}{40} + \dfrac{10}{40} & \dfrac{20}{40} + \dfrac{20}{40} \end{pmatrix} \Rightarrow \begin{pmatrix} \dfrac{40}{40} & \dfrac{0}{40} \\ \dfrac{0}{40} & \dfrac{40}{40} \end{pmatrix} \Rightarrow \begin{pmatrix} 1 & 0 \\ 0 & 1 \end{pmatrix}$

The product of $(A) \times (A)^{-1}$ is the identity matrix. Therefore the inverse matrix is correct.

4. $A = \begin{pmatrix} 6 & -3 \\ 5 & -2 \end{pmatrix}$

Solution: The first step is to find the determinant of (A).

$|A| = -12 - -15$

$|A| = 3$

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$$A^{-1} = \begin{pmatrix} \dfrac{-2}{3} & \dfrac{3}{3} \\ \dfrac{-5}{3} & \dfrac{6}{3} \end{pmatrix} \quad or A^{-1} = \begin{pmatrix} \dfrac{-2}{3} & 1 \\ \dfrac{-5}{3} & 2 \end{pmatrix}$$

Check: $\begin{pmatrix} 6 & -3 \\ 5 & -2 \end{pmatrix} \begin{pmatrix} \dfrac{-2}{3} & \dfrac{3}{3} \\ \dfrac{-5}{3} & \dfrac{6}{3} \end{pmatrix} \Rightarrow \begin{pmatrix} \dfrac{-12}{3}+\dfrac{15}{3} & \dfrac{18}{3}-\dfrac{18}{3} \\ \dfrac{-10}{3}+\dfrac{10}{3} & \dfrac{15}{3}-\dfrac{12}{3} \end{pmatrix} \Rightarrow \begin{pmatrix} \dfrac{3}{3} & \dfrac{0}{3} \\ \dfrac{0}{3} & \dfrac{3}{3} \end{pmatrix} \Rightarrow \begin{pmatrix} 1 & 0 \\ 0 & 1 \end{pmatrix}$

The product of $(A) \times (A)^{-1}$ is the identity matrix. Therefore the inverse matrix is correct.

1. Find the determinant of each of the following matrices:

a) $\begin{pmatrix} 2 & -3 \\ -4 & -10 \end{pmatrix}$ b) $\begin{pmatrix} 7 & 3 \\ -4 & -2 \end{pmatrix}$ c) $\begin{pmatrix} 5 & -2 \\ -3 & 2 \end{pmatrix}$ d) $\begin{pmatrix} -8 & 5 \\ -4 & 3 \end{pmatrix}$

Solution :

a) $\begin{pmatrix} 2 & -3 \\ -4 & -10 \end{pmatrix}$ b) $\begin{pmatrix} 7 & 3 \\ -4 & -2 \end{pmatrix}$ c) $\begin{pmatrix} 5 & -2 \\ -3 & 2 \end{pmatrix}$ d) $\begin{pmatrix} -8 & 5 \\ -4 & 3 \end{pmatrix}$

    det = -20- + 12   det = -14- -12   det = 10- + 6   det -24- - 20

    det = -32   det = -2   det = 4   det = -4

2. Find the inverse of each of the following 2×2 matrices. Check your solution by performing the operation of $(A) \times (A)^{-1}$.

a) $A = \begin{pmatrix} 4 & 3 \\ -1 & -2 \end{pmatrix}$ b) $A = \begin{pmatrix} 6 & -3 \\ 7 & -4 \end{pmatrix}$ c) $A = \begin{pmatrix} 5 & 0 \\ -4 & 2 \end{pmatrix}$ d) $A = \begin{pmatrix} -9 & 3 \\ 5 & -2 \end{pmatrix}$

Solution :

a) $A = \begin{pmatrix} 4 & 3 \\ -1 & -2 \end{pmatrix}$ b) $A = \begin{pmatrix} 6 & -3 \\ 7 & -4 \end{pmatrix}$ c) $A = \begin{pmatrix} 5 & 0 \\ -4 & 2 \end{pmatrix}$ d) $A = \begin{pmatrix} -9 & 3 \\ 5 & -2 \end{pmatrix}$

   $|A| = -8--3$ $|A| = -24--21$ $|A| = 10-0$ $|A| = 18-15$

   $|A| = -5$ $|A| = -3$ $|A| = 10$ $|A| = 3$

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$$A^{-1} = \begin{pmatrix} \dfrac{-2}{-5} & \dfrac{-3}{-5} \\ \dfrac{1}{-5} & \dfrac{4}{-5} \end{pmatrix} \quad A^{-1} = \begin{pmatrix} \dfrac{-4}{-3} & \dfrac{3}{-3} \\ \dfrac{-7}{-3} & \dfrac{6}{-3} \end{pmatrix} \quad A^{-1} = \begin{pmatrix} \dfrac{2}{10} & \dfrac{0}{10} \\ \dfrac{4}{10} & \dfrac{5}{10} \end{pmatrix} \quad A^{-1} = \begin{pmatrix} \dfrac{-2}{3} & \dfrac{-3}{3} \\ \dfrac{-5}{3} & \dfrac{-9}{3} \end{pmatrix}$$

$$A^{-1} = \begin{pmatrix} \dfrac{2}{5} & \dfrac{3}{5} \\ \dfrac{-1}{5} & \dfrac{-4}{5} \end{pmatrix} \quad A^{-1} = \begin{pmatrix} \dfrac{4}{3} & \dfrac{-3}{3} \\ \dfrac{7}{3} & \dfrac{-6}{3} \end{pmatrix} \quad A^{-1} = \begin{pmatrix} \dfrac{1}{5} & 0 \\ \dfrac{2}{5} & 1 \\ & 2 \end{pmatrix} \quad A^{-1} = \begin{pmatrix} \dfrac{-2}{3} & -1 \\ \dfrac{-5}{3} & -3 \end{pmatrix}$$

$$A^{-1} = \begin{pmatrix} 1 & -1 \\ \dfrac{7}{3} & -2 \end{pmatrix}$$

Minors and cofactors of a Matrix

$$\text{Let A} = \begin{bmatrix} a_{11} & a_{12} & a_{13} \\ a_{21} & a_{22} & a_{23} \\ a_{31} & a_{32} & a_{33} \end{bmatrix}$$

Minor of $a_{ij} \equiv M_{ij}$,

is determinant obtained by deleting ith row and jth column.

$M_{11} = \begin{vmatrix} a_{22} & a_{23} \\ a_{32} & a_{33} \end{vmatrix}$ is determinant obtained by deleting 1st row and 1st column

$$M_{11} = \begin{vmatrix} a_{22} & a_{23} \\ a_{32} & a_{33} \end{vmatrix}, M_{12} = \begin{vmatrix} a_{21} & a_{23} \\ a_{31} & a_{33} \end{vmatrix}, M_{13} = \begin{vmatrix} a_{21} & a_{22} \\ a_{31} & a_{32} \end{vmatrix}$$

$$M_{21} = \begin{vmatrix} a_{12} & a_{13} \\ a_{32} & a_{33} \end{vmatrix}, M_{22} = \begin{vmatrix} a_{11} & a_{13} \\ a_{31} & a_{33} \end{vmatrix}, M_{23} = \begin{vmatrix} a_{11} & a_{12} \\ a_{31} & a_{32} \end{vmatrix}$$

$$M_{13} = \begin{vmatrix} a_{21} & a_{22} \\ a_{31} & a_{32} \end{vmatrix}, M_{32} = \begin{vmatrix} a_{11} & a_{13} \\ a_{21} & a_{23} \end{vmatrix}, M_{33} = \begin{vmatrix} a_{11} & a_{12} \\ a_{21} & a_{22} \end{vmatrix}$$

Cofactor of $a_{ij} = C_{ij} = (-1)^{i+j} M_{ij}$

Signs of Cofactors

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For 2x2 – matrix $\begin{bmatrix} + & - \\ - & + \end{bmatrix}$

For 3x3 – matrix $\begin{bmatrix} + & - & + \\ - & + & - \\ + & - & + \end{bmatrix}$

For 4x4 – matrix $\begin{bmatrix} + & - & + & - \\ - & + & - & + \\ + & - & + & - \\ - & + & - & + \end{bmatrix}$

Example:1. **Find all minors and cofactors of the matrix**

$$A = \begin{bmatrix} 3 & 4 & -1 \\ 1 & 0 & 3 \\ 2 & 5 & -4 \end{bmatrix}$$

Solution:

$$M_{11} = \begin{vmatrix} 0 & 3 \\ 5 & -4 \end{vmatrix} = -15, M_{12} = \begin{vmatrix} 1 & 3 \\ 2 & -4 \end{vmatrix} = -10, M_{13} = \begin{vmatrix} 1 & 0 \\ 2 & -5 \end{vmatrix} = 5$$

$$M_{21} = \begin{vmatrix} 4 & -1 \\ 5 & -4 \end{vmatrix} = -11, M_{22} = \begin{vmatrix} 3 & -1 \\ 2 & -4 \end{vmatrix} = -10, M_{23} = \begin{vmatrix} 3 & 4 \\ 2 & 5 \end{vmatrix} = 7$$

$$M_{31} = \begin{vmatrix} 4 & -1 \\ 0 & 3 \end{vmatrix} = 12, \quad M_{32} = \begin{vmatrix} 3 & -1 \\ 1 & 0 \end{vmatrix} = 10, \quad M_{33} = \begin{vmatrix} 3 & 4 \\ 1 & 0 \end{vmatrix} = -4$$

Cofactor of $a_{ij} = C_{ij} = (-1)^{i+j} M_{ij}$

$$C_{11} = -15, \quad C_{12} = 10, \quad C_{13} = 5$$
$$C_{21} = 11, \quad C_{22} = -10, \quad C_{23} = -7$$
$$C_{31} = 12, \quad C_{32} = -10, \quad C_{33} = -4$$

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NOTE: Matrix of cofactors , $C = \begin{bmatrix} -15 & 10 & 5 \\ 11 & -10 & -7 \\ 12 & -10 & -4 \end{bmatrix}$

<u>NOTE: Determinant of matrix of Cofactors by the method of Cofactors</u>

$$\det(A) = a_{11}C_{11} + a_{12}C_{12} + a_{13}C_{13}$$
$$\det(A) = a_{21}C_{21} + a_{22}C_{22} + a_{23}C_{23}$$
$$\det(A) = a_{31}C_{31} + a_{32}C_{32} + a_{33}C_{33}$$

The above equations can be used to check that the cofactors are found correctly as the values of determinants found must be equal, we open matrix from any row or column.

Example: 2 . Find the determinant of the matrix A by method of cofactors,

$$A = \begin{bmatrix} 3 & 4 & -1 \\ 1 & 0 & 3 \\ 2 & 5 & -4 \end{bmatrix}$$

Solution: : **Using the cofactors found in the last example**

$$\det(A) = a_{11}C_{11} + a_{12}C_{12} + a_{13}C_{13}$$
$$= 3(-15)+4(10)+(-1)(5)$$
$$= -45 + 40 - 5 = -10$$

NOTE: 3. We can find determinant by opening matrix from second or third row or first column, the value of the determinant will be same

$$\det(A) = a_{21}C_{21} + a_{22}C_{22} + a_{23}C_{23}$$
$$= (1)(11)+0(-10)+3(-7)=11 - 21 = -10$$

$$\det(A) = a_{31}C_{31} + a_{32}C_{32} + a_{33}C_{33}$$
$$= 2(12) +5(-10)+(-4)(-4) =24 - 50 +16 = -10$$

NOTE : 4. Determinant of A can be obtained by multiplying any row or any column of matrix A with the corresponding row or column of the matrix of cofactors.

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NOTE: 5. **Determinant of matrix A** $= \begin{bmatrix} a_{11} & a_{12} & a_{13} \\ a_{21} & a_{22} & a_{23} \\ a_{31} & a_{32} & a_{33} \end{bmatrix}$

$$\det A = a_{11}\begin{vmatrix} a_{22} & a_{23} \\ a_{32} & a_{33} \end{vmatrix} - a_{12}\begin{vmatrix} a_{21} & a_{23} \\ a_{31} & a_{33} \end{vmatrix} + a_{13}\begin{vmatrix} a_{21} & a_{22} \\ a_{31} & a_{32} \end{vmatrix}$$

<u>**Inverse by method of Cofactors:**</u>

$$A = \begin{bmatrix} a_{11} & a_{12} & a_{13} \\ a_{21} & a_{22} & a_{23} \\ a_{31} & a_{32} & a_{33} \end{bmatrix} \qquad \det A \neq 0.$$

Step:1. **Find Matrix of cofactors**

$$C = \begin{bmatrix} C_{11} & C_{12} & C_{13} \\ C_{21} & C_{22} & C_{23} \\ C_{31} & C_{32} & C_{33} \end{bmatrix}$$

Step : 2. **Find Adjoint of matrix A , adj(A)**

$$Adj(A) = \begin{bmatrix} C_{11} & C_{12} & C_{13} \\ C_{21} & C_{22} & C_{23} \\ C_{31} & C_{32} & C_{33} \end{bmatrix}^{T}$$

Step: 3.

> **If A is an invertible matrix, det(A)$\neq$ 0, then**
>
> $$A^{-1} = \frac{1}{\det A}[adj(A)]$$

Example: 3 . Find A^{-1} of matrix A

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$$A = \begin{bmatrix} 2 & 0 & 3 \\ 0 & 3 & 2 \\ -2 & 0 & -4 \end{bmatrix}$$ by the method of cofactors.

Solution: Cofactors of the matrix A are

$$C_{11} = \begin{vmatrix} 3 & 2 \\ 0 & -4 \end{vmatrix} = -12, C_{12} = -\begin{vmatrix} 0 & 2 \\ -2 & -4 \end{vmatrix} = -4, C_{13} = \begin{vmatrix} 0 & 3 \\ -2 & 0 \end{vmatrix} = 6$$

$$C_{21} = -\begin{vmatrix} 0 & 3 \\ 0 & 4 \end{vmatrix} = 0, \quad C_{22} = \begin{vmatrix} 2 & 3 \\ -2 & -4 \end{vmatrix} = -2, \quad C_{23} = -\begin{vmatrix} 2 & 0 \\ -2 & 0 \end{vmatrix} = 0,$$

$$C_{31} = \begin{vmatrix} 0 & 3 \\ 3 & 2 \end{vmatrix} = -9, \quad C_{32} = -\begin{vmatrix} 2 & 3 \\ 0 & 2 \end{vmatrix} = -4, \quad C_{33} = \begin{vmatrix} 2 & 0 \\ 0 & 3 \end{vmatrix} = 6$$

Matrix of cofactors, $$C = \begin{bmatrix} -12 & -4 & 6 \\ 0 & -2 & 0 \\ -9 & -4 & 6 \end{bmatrix}$$

Adjoint of matrix A, $$adj(A) = \begin{bmatrix} -12 & 0 & -9 \\ -4 & -2 & -4 \\ 6 & 0 & 6 \end{bmatrix}$$

$$\det(A) = a_{11}C_{11} + a_{12}C_{12} + a_{13}C_{13}$$
$$= 2(-12)+0(-4)+3(6)$$
$$= -24 +18 = -6 \neq 0$$

Inverse of matrix A is

$$A^{-1} = \frac{1}{\det A}[adj(A)] = \frac{1}{-6}\begin{bmatrix} -12 & 0 & -9 \\ -4 & -2 & -4 \\ 6 & 0 & 6 \end{bmatrix}$$

NOTE :

If we can find A^{-1} , then solution of linear system

AX = B is   X = A^{-1}B

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Adjoint:

The adjoint is the transpose of the cofactors (c^T)

To find the cofactors you find the '**minor**' of each element (and use the alternate signs as shown above).

If: A = $\begin{bmatrix} a & b & c \\ d & e & f \\ g & h & i \end{bmatrix}$

Matrix of cofactors =

The minors of each element

$$\begin{bmatrix} +\begin{vmatrix} e & f \\ h & i \end{vmatrix} & -\begin{vmatrix} d & f \\ g & i \end{vmatrix} & +\begin{vmatrix} d & e \\ g & h \end{vmatrix} \\ -\begin{vmatrix} b & c \\ h & i \end{vmatrix} & +\begin{vmatrix} a & c \\ g & i \end{vmatrix} & -\begin{vmatrix} a & b \\ g & h \end{vmatrix} \\ +\begin{vmatrix} b & c \\ e & f \end{vmatrix} & -\begin{vmatrix} a & c \\ d & f \end{vmatrix} & +\begin{vmatrix} a & b \\ d & e \end{vmatrix} \end{bmatrix}$$

Nb. To find the adjoint we then need to <u>transpose</u> this matrix.

1. Find the inverse of the following matrix: A = $\begin{bmatrix} 2 & 1 & 5 \\ 3 & 3 & 2 \\ 4 & 1 & 1 \end{bmatrix}$

Determinant: $|A| = +2\begin{vmatrix} 3 & 2 \\ 1 & 1 \end{vmatrix} - 1\begin{vmatrix} 3 & 2 \\ 4 & 1 \end{vmatrix} + 5\begin{vmatrix} 3 & 3 \\ 4 & 1 \end{vmatrix}$

$$= 2(1) - 1(-5) + 5(-9) \qquad = -38$$

Cofactors = $\begin{bmatrix} +\begin{vmatrix} 3 & 2 \\ 1 & 1 \end{vmatrix} & -\begin{vmatrix} 3 & 2 \\ 4 & 1 \end{vmatrix} & +\begin{vmatrix} 3 & 3 \\ 4 & 1 \end{vmatrix} \\ -\begin{vmatrix} 1 & 5 \\ 1 & 1 \end{vmatrix} & +\begin{vmatrix} 2 & 5 \\ 4 & 1 \end{vmatrix} & -\begin{vmatrix} 2 & 1 \\ 4 & 1 \end{vmatrix} \\ +\begin{vmatrix} 1 & 5 \\ 3 & 2 \end{vmatrix} & -\begin{vmatrix} 2 & 5 \\ 3 & 2 \end{vmatrix} & +\begin{vmatrix} 2 & 1 \\ 3 & 3 \end{vmatrix} \end{bmatrix} = \begin{bmatrix} 1 & 5 & -9 \\ 4 & -18 & 2 \\ -13 & 11 & 3 \end{bmatrix}$

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Adjoint (C^T): =
$$\begin{bmatrix} 1 & 4 & -13 \\ 5 & -18 & 11 \\ -9 & 2 & 3 \end{bmatrix}$$

Inverse: $A^{-1} = \dfrac{1}{|A|} \times adj = -\dfrac{1}{38} \begin{bmatrix} 1 & 4 & -13 \\ 5 & -18 & 11 \\ -9 & 2 & 3 \end{bmatrix}$

Simple Interest

The price to be paid for the use of a certain amount of money (called principal) for a certain period is known as *Interest*. The interest is payable yearly, half-yearly, quarterly or monthly.

The sum of the principal and interest due at any time, is called the *Amount* at that time.

The rate of interest is the interest charged on one unit of principal for one year and is denoted by i. If the principal is ₹ 100 then the interest charged for one year is usually called the amount of interest per annum, and is denoted by r (= Pi).

e.g. if the principal is ₹ 100 and the interest ₹ 3, then we say usually that the rate of interest is 3 percent per annum (or r = 3 %)

Here $i = \dfrac{3}{100} = 0.03$ (i.e. interest for 1 rupee for one year).

Simple interest is calculated always on the original principal for the total period for which the sum (principal) is used.

Let P be the principal (original)

n be the number of years for which the principal is used

r be the rate of interest p.a.

I be the amount of interest

i be the rate of interest per unit (i.e. interest on Re. 1 for one year)]

Now I = P.i.n, where $i = \dfrac{r}{100}$

Amount A = P + I = P + P. i. n = P (1+ i.n) i.e. **A = P (1 + n .i)**

SOLVED EXAMPLES :

1. **Amit deposited ₹ 1200 to a bank at 9% interest p.a. find the total interest that he will get at the end of 3 years.**

Here P = 1200, $i = \dfrac{9}{100} = 0.09$, n = 3, I = ?

I = P. i.n = 1200 x 0.09 x 3 = 324.

Amit will get ₹ 324 as interest.

2. **Sumit borrowed ₹ 7500 at 14.5% p.a. for $2\dfrac{1}{2}$ years. Find the amount he had to pay after that period.**

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$P = 7500, \quad i = \dfrac{14.5}{100} = 0.145, \quad n = 2\dfrac{1}{2} = 2.5, A = ?$

$A = P(1+ in) = 7500(1+0.145 \times 2.5) = 7500(1+0.3625)$

$= 7500 \times 1.3625 = 10218.75$

Reqd. amount = ₹ 10218.75.

3. **Find the simple interest on ₹ 5600 at 12% p.a. from July 15 to September 26, 2013.**

Time = number of days from July 15 to Sept. 26

= 16 (July) + 31 (Aug.) + 26 (Sept.)= 73 days.

$P = 5600, \quad i = \dfrac{12}{100} = 0.12, \quad n = \dfrac{73}{365} \text{yr.} = \dfrac{1}{5} \text{yr.}$

$\text{S.I.} = P \cdot i \cdot n = 5600 \times 0.12 \times \dfrac{1}{5} = 134.4$

$\therefore$ Reqd. S.I. = ₹ 134.40.

To find Principle :

4. **What sum of money will amount to ₹ 1380 in 3 years at 5% p.a. simple interest?**

Here $A = 1380, \; n = 3, \; i = \dfrac{5}{100} = 0.05, P = ?$

From $A = P(1 + 0.05 \times 3)$ or, $1380 = P(1+0.15)$

Or, $1380 = P(1.15)$ or, $P = \dfrac{1380}{1.15} = 1200$

$\therefore$ Reqd. sum = ₹ 1200

Problems to find rate % :

5. **At what rate percent will a sum, become double of itself in $5\dfrac{1}{2}$ years at simple interest?**

$A = 2P, \; P = \text{Principal}, \; n = 5\dfrac{1}{2}, \; i = ?$

$A = P(1 + ni)$ or, $2P = P\left(1+\dfrac{11}{2} i\right)$

or, $2 = 1+\dfrac{11}{2} i$ or, $i = \dfrac{2}{11}$

or, $n = \dfrac{2}{11} \times 100 = 18.18$ (approx);   Reqd. rate = 18.18%.

Problems to find time :

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6. **In how many years will a sum be double of itself at 10% p.a. simple interest.**

A = 2P, P = Principal, $i = \dfrac{10}{100} = 0.10$, n= ?

A = P (1 + ni) or, 2P = P [1 + n(.10)] or, 2 = 1 + n (.10)

or, n (.10) = 1   or, $n = \dfrac{1}{.10} = 10$ $\therefore$ Reqd. time = 10 years.

COMPOUND INTEREST

Interest as soon as it is due after a certain period, is added to the principal and the interest for the succeeding period is based upon the principal and interest added together. Hence the principal does not remain same, but increases at the end of each interest period.

A year is generally taken as the interest-period, but in most cases it may be half-year or quarter-year.

Symbols :

Let P be the Principal (original)

A be the amount

i be the Interest on Re. 1 for 1 year

n be the Number of years (interest period).

Formula : A = P(1 + i)^n .... (i)

Cor.1. In formula (i) since P amount to A in years, P may be said to be present value of the sum A due in n years.

$$P = \dfrac{A}{(1+i)^n} = A(1+i)^{-n}$$

Cor.2. Formula (1) may be written as follows by using logarithm :

log A = log P + n log (1 + i)

FEW FORMULAE :

Compound Interest may be paid half-yearly, quarterly, monthly instead of a year. In these cases difference in formulae are shown below :

(Taken P = principal, A = amount, T = total interest, i = interest on Re. 1 for 1 year, n = number of years.)

	Time	Amount	I = A – P
(i)	Annual	A= P(1 + I)^n	I = P {(1 + i)^n –1}
(ii)	Half-Yearly	$A = P\left(1+\dfrac{i}{2}\right)^{2n}$	$I = P\left[\left(1+\dfrac{i}{2}\right)^{2n} - 1\right]$
(iii)	Quarterly	$A = P\left(1+\dfrac{i}{4}\right)^{4n}$	$I = P\left[\left(1+\dfrac{i}{4}\right)^{4n} - 1\right]$

In general if C.I. is paid p times in a year, then $A = P\left(1+\dfrac{i}{p}\right)^{pn}$.

i.e. : Let P = ₹ 1000, r = 5% i.e., i = 0.05, n = 24 yrs.

If interest is payable yearly the A = 1000 (1 + 0.5)^{24}

If int. is payable half-yearly the $A = 1000\left(1+\dfrac{0.05}{2}\right)^{2\times24}$

If int. is payable quarterly then $A = 1000\left(1+\dfrac{0.05}{4}\right)^{4\times24}$

Note. or r = 100 i = interest per hundred.

If r = 6% then   If, however i = 0.02 then, r = 100 × 0.02 = 2%.

SOLVED EXAMPLES.

1. Find the compound interest on ₹ 1,000 for 4 years at 5% p.a.

Here P = ₹ 1000, n = 4, i = 0.05, A = ?

We have A = P (1 + i)^n

A = 1000 (1+ 0.05)^4

Or log A = log 1000 + 4log (1 + 0.05) = 3 + 4 log (1. 05) = 3 + 4 (0.0212) = 3 + 0.0848 = 3.0848

A = antilog 3.0848 = 1215

C.I. = ₹ 1215 – ₹ 1000 = ₹ 215

2. In what time will a sum of money double itself at 5% p.a. C.I.

Here, P = P, A = 2P, i = 0.05, n = ?

A = P (1 + i)^n or, 2P = P(1 + 0.05)^n = P (1.05)^n

or, 2 = (1.05)^n or log 2 = n log 1.05

$\therefore n = \dfrac{\log 2}{\log 1.05} = \dfrac{0.3010}{0.0212} = 14.2$ years (Approx)

3. The difference between simple and compound interest on a sum put out for 5 years at 3% was ₹ 46.80. Find the sum.

Let P = 100, i = .03, n = 5. From $A = P(1 + i)^n$,

$A = 100(1 + .03)^5 = 100(1.03)^5$

$\log A = \log 100 + 5 \log(1.03) = 2 + 5(.0128) = 2 + .0640 = 2.0640$

$\therefore A = \text{antilog } 2.0640 = 115.9$ $\therefore$ C.I. = 115.9 – 100 = 15.9

Again S.I. = $3 \times 5 = 15$. $\therefore$ difference 15.9 – 15 = 0.9

Diff.	Capital
0.9	100
46.80	x

$x = 100 \times \dfrac{46.80}{0.9} = 5,200$

$\therefore$ original sum = ₹ 5,200.

4. What is the present value of ₹ 1,000 due in 2 years at 5% compound interest, according as the interest is paid (a) yearly, (b) half-yearly ?

(a) Here A = ₹ 1,000, $i = \dfrac{5}{100} = 0.05$, n = 2, P = ?

$A = P(1 + i)^n$ or $1000 = P(1 + .05)^2 = P(1.05)^2$

$\therefore P = \dfrac{1000}{(1.05)^2} = \dfrac{1000}{1.1025} = 907.03$

$\therefore$ Present value = ₹ 907.03

(b) Interest per unit per half-year $\dfrac{1}{2} \times 0.05 = 0.025$

From $A = P\left(1 + \dfrac{i}{2}\right)^{2n}$ we find.

$1,000 = P\left(1 + \dfrac{0.05}{2}\right)^{2 \times 2} = P(1 + .025)^4 = P(1.025)^4$

or, $P = \dfrac{1000}{(1.025)^4}$

$\therefore \log P = \log 1000 - 4\log(1.025) = 3 - 4(0.0107) = 3 - 0.0428 = 2.9572$

$\therefore P = \text{antilog } 2.9572 = 906.1.$

Hence the present amount = ₹ 906.10

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Present value of an annuity :

Definition : Present value of an annuity is the sum of the present values of all payments (or instalments) made at successive annuity periods.

Formula :

(i) The present value V of an annuity P to continue for n years is given by

$$V = \frac{P}{i}\left\{ 1 - (1+i)^{-n} \right\}$$ Where i = interest per rupee per annum.

(ii) The Present value V of an annuity P payable half-yearly, then

$$V = \frac{2P}{i}\left[1 - \left(1+\frac{i}{2}\right)^{-2n} \right]$$

(ii) The Present value V of an annuity P payable quarterly, then

$$V = \frac{4P}{i}\left[1 - \left(1+\frac{i}{4}\right)^{-4n} \right]$$

SOLVED EXAMPLES :

A man decides to deposit ₹ 20,000 at the end of each year in a bank which pays 10% p.a. compound interest. If the instalments are allowed to accumulate, what will be the total accumulation at the end of 9 years?

Solution :

Let ₹ A be the total accumulation at the end of 9 years. Then we have

$$A = \frac{P}{i}\left\{ (1+i)^n - 1 \right\}$$

Here P = ₹ 20,000, $i = \frac{10}{100} = 0.1$, n = 9 years.

$$\therefore A = \frac{20,000}{0.1}\left\{ (1+.1)^9 - 1 \right\} = 2,00,000\left\{ (1.1)^9 - 1 \right\} = 2,00,000\,(2.3579 - 1)$$

$$= 2,00,000 \times 1.3579 = ₹\,2,71,590$$

∴ The required total accumulation = ₹ 2,71,590.

Nominal and Effective Interest

An interest rate takes two forms: nominal interest rate and effective interest rate. The nominal interest rate does not take into account the compounding period. The effective interest rate does take the compounding period into account and thus is a more accurate measure of interest charges.

A statement that the "interest rate is 10%" means that interest is 10% per year, compounded annually. In this case, the nominal annual interest rate is 10%, and the effective annual interest rate is also 10%. However, if compounding is more frequent than once per year, then the effective interest rate will be greater than 10%. The more often compounding occurs, the higher the effective interest rate.

The relationship between nominal annual and effective annual interest rates is:

$i_a = [\, 1 + (r\,/\,m)\,]^{\,m} - 1$

where "i_a" is the effective annual interest rate, "r" is the nominal annual interest rate, and "m" is the number of compounding periods per year.

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Example: A credit card company charges 21% interest per year, compounded monthly. What effective annual interest rate does the company charge?

r = 0.21 per year

m = 12 months per year

$i_a = [\ 1 + (.21\ /\ 12)\ ]^{12} - 1$

$= [1 + 0.0175\ ]^{12} - 1$

$= (1.0175)^{12} - 1 = 1.2314 - 1$

$= 0.2314 = 23.14\%$

It may be desired to find the effective interest rate for a period other than annual. In this case, adjust the period for "r" and "m" as needed. For example, if the effective interest rate per semi annual period (every 6 months) is desired, then

r = nominal interest rate per 6 months

m = number of compounding periods per 6 months

and the effective interest rate, i_{sa}, per semi-annual period, is:

$i_{sa} = [\ 1 + (r\ /\ m)\ ]^{m} - 1$

2. If a lender charges 12% interest, compounded monthly, what is the effective interest rate <u>per quarter</u>?

      Hint: m = number of compounding periods per quarter

      Let i = effective interest rate per quarter.

Choose an answer by clicking on one of the letters below, or click on "Review topic" if needed.

<u>A</u> $i = [\ 1 + (0.12\ /\ 3)\ ]^{3} - 1 = (1.04)^{3} - 1 = 0.1249 = 12.49\%$

<u>B</u> $i = [\ 1 + 0.03\ ]^{12} - 1 = (1.03)^{12} - 1 = 0.4258 = 42.58\%$

<u>C</u> $i = [\ 1 + (0.03\ /\ 3)\ ]^{3} - 1 = (1.01)^{3} - 1 = 0.0303 = 3.03\%$

<u>D</u> $i = [\ 1 + (0.03\ /\ 12)\ ]^{3} - 1 = (1.0025)^{3} - 1 = 0.0075 = 0.75\%$

Continuous Compounding

Single payment formulas for continuous compounding are determined by taking the limit of compound interest formulas as m approaches infinity, where m is the number of compounding periods per year. Here "e" is the exponential constant (sometimes called Euler's number).

With continuous compounding at nominal annual interest rate r (time-unit, e.g. year) and n is the number of time units we have:

$F = P\ e^{r\,n}$ F/P

$P = F\ e^{-r\,n}$ P/F

$i_a = e^{r} - 1$ Actual interest rate for the time unit

Example 1: If $100 is invested at 8% interest per year, compounded continuously, how much will be in the account after 5 years?

P = $100

r = 8%

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n = 5 years

$F = P\ e^{r\,n} = (\$100)\ e^{(.08)(5)}$

$= (\$100)\ e^{0.4} = (\$100)(1.4918) = \$149.18$

Example 2: If $100 is invested at 0.667% interest per month, compounded continuously, how much will be in the account after 5 years?

P = $100

r = 0.666667%

n = 5 years * 12 months

$F = P\ e^{r\,n} = (\$100)\ e^{(.00666667)(60)}$

$= (\$100)\ e^{0.4} = (\$100)(1.4918) = \$149.18$

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POSSIBLE QUESTIONS

<div align="center">

PART – B (5 x 2 = 10 Marks)

</div>

1. What is an upper triangular matrix? Give example.
2. Write the formula for calculates Simple interest and compound interest?
3. Find the simple interest on the sum of Rs.6,000 at 10% p.a. for 3 years?
4. Find the inverse of   A= $\begin{pmatrix} 5 & 5 \\ 8 & 6 \end{pmatrix}$
5. What is singular matrix and non singular matrix?
6. If $A = \begin{bmatrix} 3 & 5 \\ 1 & 9 \end{bmatrix}$ then show that $(A')' = A$
7. Evaluate $A = \begin{vmatrix} 6 & 4 & 2 \\ 7 & 1 & 3 \\ 0 & -1 & 6 \end{vmatrix}$
8. If $A = \begin{bmatrix} 1 & 4 \\ 2 & 3 \end{bmatrix}$ and $B = \begin{bmatrix} 5 & 4 \\ 3 & 4 \end{bmatrix}$, then find (A+B), (A–B).

<div align="center">

PART – C (5 x 6 = 30 Marks)

</div>

1. If   A $= \begin{bmatrix} 1 & 0 & -2 \\ 2 & 2 & 4 \\ 0 & 0 & 2 \end{bmatrix}$, Find the inverse of A.

2. Mr. Ravi borrows Rs.20000 at 4% compound interest and agrees to pay both the
   principal and the interest in 10 equal installments at the end of each year. Find the
   amount of these installments.

3. If $A = \begin{bmatrix} 2 & 3 & 5 \\ 4 & 7 & 9 \\ 1 & 6 & 4 \end{bmatrix}$ and $B = \begin{bmatrix} 3 & 1 & 2 \\ 4 & 2 & 5 \\ 6 & -2 & 7 \end{bmatrix}$, Show that $5(A + B) = 5A + 5B$.

4. Mr. Puthiyanayagam has two daughters A and B aged 10 ½ and 16 years. He has
   Rs.180, 000 with him now but he wants that both of them should get an equal amount when they are
   18 years old. How he should divide the money if it were to be deposited with his friend who gives
   only 5 % p.a.

5. Verify that $B^T A^T = (AB)^T$, when $A = \begin{bmatrix} 1 & 1 & 2 \\ 2 & 1 & 0 \end{bmatrix}$ and $B = \begin{bmatrix} 1 & 2 \\ 2 & 0 \\ -1 & 1 \end{bmatrix}$

6. i) If a term deposit of Rs.4000 earns an interest of Rs.2500 in 50 months find the rate of
      interest.
   ii) Find the present value of Rs.695 due 2 years from now receiving simple interest at 5% per
      annum.

7. If A= $\begin{bmatrix} 1 & -1 & 1 \\ 2 & 3 & 0 \\ 18 & 2 & 10 \end{bmatrix}$, find the inverse of the given matrix A.

8. i) Find the effective rate of interest percent per annum equivalent to a nominal rate 12% per annum
      the interest being payable half yearly.

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ii). Find the simple interest on the sum of Rs.3000 at 5% p.a. for 2 years?

9. Show that $A = \begin{bmatrix} 1 & 2 & 2 \\ 2 & 1 & 2 \\ 2 & 2 & 1 \end{bmatrix}$ satisfies the equation $A^2 - 4A - 5I = 0$.hence deduce the inverse of A.

10. A person has two daughters A and b aged 13 and 16 years. He has Rs.40, 000 with him now but wants that both of them should get an equal amount when they are 20 years old. How he should divide the money if it were to be deposited in a bank giving 9% compound interest p.

11. Find the effective rate of interest equivalent nominal rate of 12% p.a., compounded monthly. Further, find the effective rate when interest is compounded continuously.

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Pollachi Main Road, Eachanari (Po),
Coimbatore –641 021

Subject: Business Mathematics &Statistics			Subject Code: 17CMU202	
Class : I B.Com			Semester : II	

UNIT -I

Matrices & Basic Mathematics of Finance

PART A (20x1=20 Marks)

(Question Nos. 1 to 20 Online Examinations)

Possible Questions

Question	Choice 1	Choice 2	Choice 3	Choice 4	
A rectangular arrangement of numbers in rows and columns is called -------------.	set	matrix	order	sub matrix	
A scalar matrix in which all the leading diagonal elements are unity is called-----------	square matrix	unit matrix	null matrix	Identity matrix	
A diagonal matrix in which all the diagonal elements are equal is called --------.	diagonal matrix	scalar matrix	unit matrix	null matrix	
[3 8 9 -2] is a row matrix of order-------------------	4 x 1	1x 4	1x 1	4 x 4	
A square matrix such that A' = A is called------------------	symmetric	skew symmetric	hermitiIan	scalar	
An association of a real numbers with a matrix is known as -----------.	real matrix	complex matrix	null matrix	unit matrix	
The number of elements in an m x n matrix is ----------------------	mn	n	m^2	n^2	
If in a square matrix A, $a_{ij} = 0$ for i>j, then it is called a -------------- matrix.	lower triangular	upper triangular	diagonal	scalar matrix	

$(A^T)^T$ = ----------.	A^{-1}	A^T	A	$1/A$
A matrix A is said to be Orthogonal matrix if ---------------.	$AA^T = I$	$AA^T = 0$	$A = A^T$	$A = 1/A$
The addition of two matrices are possible only when they are -----------.	of same order	of any order	scalar matrices	unit matrices
A square matrix is said to be singular if its determinant is ------------------	0	1	2	-1
If A is non singular ,its inverse is ----------------	Adj A / |A|	|A| / Adj A	1/Adj A	1/|A|
The condition for existing of A^{-1} is ---------------	A is non singular	A is singular	A^T is singular	A square matrix
in a square matrix A, $a_{ij} = 0$ for i <j, then it is called a --------------- matrix.	lower triangular	upper triangular	diagonal	triangular
A Square matrix such that A' = $-$ A is called --------------	symmetric	skew symmetric	hermit ion	scalar
The sum of the diagonal elements in a matrix A is the -------------.	Trace of A	unit of A	Transpose of A	inverse of A
If a square matrix A of order n is of the form $A^n = 0$, then it is an ----------- matrix.	Identity	Idempotent	Nilpotent	Orthogonal
If a square matrix A of order n is of the form $A^n = A$, then it is an ----------- matrix.	Identity	Idempotent	Nilpotent	Orthogonal
$(AB)^{-1}$ = ---------------.	A^{-1}	B^{-1}	$A^{-1}B^{-1}$	$B^{-1}A^{-1}$
I*A = ---------------.	A	0	Identity matrix	Zero matrix

An identity matrix is also found as a ------------- matrix	Scalar	Diagonal	triangular	scalar and diagonal
In a 3x3 square matrix the minor and the cofactor of the element a_{23} have ---------.	Same sign and same value	same sign and different values	Opposite sign and same value	opposite sign and different values
Every matrix A and its transpose A^T have --------------- determinant value	Different	same	one as the negative of other	one as the multiple of other
The determinant value of the unit matrix of order 2 is ----- -------------	1	0	-1	2
If A is singular ,its inverse is ----------------	null matrix	does not exists	1/Adj A	1/|A|
A rectangular matrix will not possesses--------------	inverse	cofactor	determinant	transpose
For any square matrix (adj A).A = A. (adj A) is --------------	|A| .I	|A		1 / |A|	A^T
For any two square matrices A and B (adj AB) = -------------- --	(adj A). (adj B)	(adj B). (adj A)	(adj BA)	(adj B +adj A)
The formula for computing simple Interest is ----------------- .	pnr / 100	p+n+r /100	p-n-r /100	p+n+r
Simple interest will be an income for ------------------.	lender	borrower	customer	creditor
The simple interest on Rs. 5000 at 10 % for 3 years is -------- -------.	Rs.500	Rs.1000	Rs.1500	Rs.2000
If the simple interest for 2 years at 12 % is Rs. 3000 the principal is ----------------	20,000	3,000	12,500	10,000

Prepared by: R. Praveen Kumar, Department of Mathematics, KAHE

The formula for compound interest is ------------------	PNR /100	$P(1+r/100)^n - P$	$A/(1+i)n$	$CI/(I+I)n$
The compound interest on Rs. 1000 at 12 % for one year is ----------------.	Rs.150	Rs.175	Rs.120	Rs.126
The formula for calculating principal under compound interest. is-------------.	$A/(1+i)^n$	$P(1+i)^n$	Pni	$CI/(1+i)^n$
If the principal isRs.5000 ,Interest is Rs.100 then amount A=-------------	Rs.5100	Rs.4900	Rs.5000	Rs.6000
If Rs.6,000 amounts to Rs.8,940 then the interest is -------	2940	Rs.3450	Rs.4560	Rs.3540
The simple interest on Rs.6,000 at 10% for 2 years is--------	Rs.1200	Rs.1000	Rs.2000	Rs.1250
The formula for simple interest is -------	Pni	P-n-r/100	P+n+r/100	Pn
The formula for calculating amount under compound interest is -------	$P(1+r/100)^n$	P(1+r/100)n-1	Pni	P
Compound interest is more than ---------	Principal	amount	simple interest	compound interest
Formula for rate of interest under compound interest is ------------	$100[(A/P)^{1/n}-1]$	P(1+A /100)n-1	P(1+I)n	P(1+I)
In compound interest the formula for period is--------	log A-log P/log(1+r/100)	log A-log P/(1+r/100)	log A+log P/(1+r/100)	A+P
Compound interest for Rs.2,500 for 4 years at 8% per annum is ------	Rs.801.32	Rs.701.22	Rs.601.42	Rs.901.22
The effective rate of compound interest is -------	$100[(1-r/100m)^m-1]$	$100[(1+r/100m)^m-1]$	$P(1+i)^n$	P

In the effective rate of interest, a unit of time m is quarterly means m= ------	4	2	3	1
In the effective rate of interest, a unit of time m is half yearly means m= ------	4	2	3	1
Interest is compounded continuously means m is -------	large	small	middle	first
When interest is compounded continuously A is -----	Pe^{in}	Pe-in	$- Pe^{in}$	P
When interest is compounded continuously P is -----	Pe^{in}	Pe-in	$- Pe^{in}$	P
When interest is compounded continuously, effective rate of interest S is--------	Pe^{in}	A/ e^{in}	$- Pe^{in}$	$100(e^{i} -1)$
In what time a sum of Rs.1234 amount to Rs.5678 at 8% p.a. compound interest payable quarterly?	18.72 years	19.27 years	19.72 years	17.95 years
Under compound interest , interest earns-------	interest	principal	amount	discount
The simple interest on a sum of Rs.2000 for two years at 5% p.a. is----------------	Rs.800	Rs.700	Rs.1000	Rs.1200
If the simple interest is Rs 150 ,number of years is 6 and the rate if interest is 5% p.a then principal is -----------------	Rs. 500	Rs. 300	Rs.1000	Rs. 500
If the simple interest is Rs 72 , the rate if interest is 4 % p.a the principal is Rs. 600 then number of years is -----------------	3	4	5	1

	Amount - principal	Amount + principal	principal –Amount	Amount x principal	
Compound interest is-------------------	Amount - principal	Amount + principal	principal –Amount	Amount x principal	
The amount of money deposited or borrowed is called the -----------------	principal	interest	amount	discount	
The extra money which we get or which we pay is called----------------	principal	interest	amount	discount	
The simple interest on a sum of Rs.1225 for 4 years at 11% p.a. is----------------	Rs.539	Rs.700	Rs.100	Rs.120	
Answer					
matrix					
unit matrix					
scalar matrix					
1x 4					
symmetric					
real matrix					
mn					
upper triangular					
A					
$AA^T = I$					
of same order					
0					
Adj A / |A|					
A is non singular					
lower triangular					
skew symmetric					
Trace of A					
Nilpotent					
Idempotent					
$B^{-1}A^{-1}$					
A					
scalar and diagonal					

Opposite sign and same value					
same					
1					
does not exists					
inverse					
$\lvert A \rvert \cdot I$					
(adj B). (adj A)					
pnr / 100					
lender					
Rs.1500					
12,500					
$P(1+r/100)^n - P$					
Rs.120					
$A / (1+i)^n$					
Rs.5100					
2940					
Rs.1200					
Pni					
$P(1+r/100)^n$					
simple interest					
$100[(A/P)^{1/n} - 1]$					
log A-log P/log(1+r/100)					
Rs.901.22					
$100[(1+r/100m)^m - 1]$					
4					
2					
large					
Pe^{in}					
Pe-in					
$100(e^i - 1)$					
19.27 years					
interest					

Rs.1200					
Rs. 500					
3					
Amount - principal					
principal					
interest					
Rs.539					

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UNIT – II

SYLLABUS

Differential Calculus

Mathematical functions and their types – linear, quadratic, polynomial; Concepts of limit and continuity of a function; Concept of differentiation; Rules of differentiation – simple standard forms. Applications of differentiation – elasticity of demand and supply; Maxima and Minima of functions (involving second or third order derivatives) relating to cost, revenue and profit.

Concept of Functions

Let A and B be any two non–empty sets. Then a function 'ff' is a rule or law which associates each element of 'A' to a unique element of set 'B'.

Notation:

(i) A function is usually denoted by small letters, i.e. f,g,hf,g,h etc. and Greek letters,

i.e. $\alpha,\beta,\gamma,\phi,\psi$α,β,γ,φ,ψetc.

(ii) If 'ff' is a function from 'A' to 'B' then we write $f:A{\rightarrow}B$f:A→B.

Ordered Pair:

Let 'a' and 'b' be any two elements then an element(a,b)(a,b) is called an ordered pair.

Constant Function:

Let 'A' and 'B' be any two non–empty sets, then a function 'ff' from 'A' to 'B' is called a constant function if and only if the range of 'ff' is a singleton.

Algebraic Function:

A function defined by an algebraic expression is called an algebraic function.

e.g. $f(x)=x2+3x+6$f(x)=x2+3x+6

Polynomial Function:

A function of the form $P(x)=a_mx_n+a_{n-1}x_{n-1}+\cdots+a_1x+a_0$P(x)=amxn+an−1xn−1+⋯+a1x+a0

where 'n' is a positive integer and $a_n,a_{n-1},\cdots,a_1,a_0$an,an−1,⋯,a1,a0 are real numbers is called a polynomial function of degree 'n'.

Linear Function:

A polynomial function with degree 'tt' is called a linear function. The most general form of a linear function is

$f(x)=ax+b$f(x)=ax+b

Quadratic Function:

A polynomial function with degree '2' is called a quadratic function. The most general form of a quadratic equation is $f(x)=ax2+bx+c$f(x)=ax2+bx+c

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Cubic Function:

A polynomial function with degree '3' is called a cubic function. The most general form of a cubic function is $f(x)=ax^3+bx^2+cx+d$

Identity Function:

Let $f:A \to B$ be a function then 'f' is called an identity function if $f(x)=x, \forall x \in A$.

Rational Function:

A function $R(x)$ defined by $R(x)=\frac{P(x)}{Q(x)}$, where both $P(x)$ and $Q(x)$ are polynomial functions is called a rational function.

Trigonometric Function:

A function $f(x)=\sin x$, $f(x)=\cos x$ etc., then $f(x)$ is called a trigonometric function.

Exponential Function:

A function in which the variable appears as an exponent (power) is called an exponential function e.g. (i) $f(x)=a^x$ (ii) $f(x)=3^x$.

Logarithmic Function:

A function in which the variable appears as an argument of a logarithm is called a logarithmic function. e.g. $f(x)=\log_a(x)$.

LIMIT AND CONTINUITY

Limit of a Function at Infinity

Defintion   Let f(x) be a function defined on R. $\lim_{x \to \infty} f(x) = \ell$ means that for any $\varepsilon > 0$, there exists X > 0 such that when x > X, $\left| f(x) - \ell \right| < \varepsilon$.

Theorem   **UNIQUENESS of Limit Value**

If $\lim_{x \to \infty} f(x) = a$ and $\lim_{x \to \infty} f(x) = b$, then $a = b$.

Theorem   **Rules of Operations on Limits**

If $\lim_{x \to \infty} f(x)$ and $\lim_{x \to \infty} g(x)$ exist, then

(a) $\lim_{x \to \infty}[f(x) \pm g(x)] = \lim_{x \to \infty} f(x) \pm \lim_{x \to \infty} g(x)$

(b) $\lim_{x \to \infty} f(x)g(x) = \lim_{x \to \infty} f(x) \cdot \lim_{x \to \infty} g(x)$

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(c) $\lim\limits_{x\to\infty}\dfrac{f(x)}{g(x)} = \dfrac{\lim\limits_{x\to\infty}f(x)}{\lim\limits_{x\to\infty}g(x)}$ if $\lim\limits_{x\to\infty}g(x) \neq 0$.

(d)   For any constant k, $\lim\limits_{x\to\infty}[kf(x)] = k\lim\limits_{x\to\infty}f(x)$.

(e)   For any positive integer n,

       (i) $\lim\limits_{x\to\infty}[f(x)]^n = [\lim\limits_{x\to\infty}f(x)]^n$

       (ii) $\lim\limits_{x\to\infty}\sqrt[n]{f(x)} = \sqrt[n]{\lim\limits_{x\to\infty}f(x)}$

DERIVATIVES

Definition: The derivative of a function f at a point a, denoted by $f'(a)$, is

$$f'(a) = \lim_{h\to 0}\frac{f(a+h) - f(a)}{h}$$

provided that the limit exists.

If we denote $y = f(x)$, then $f'(a)$ is called the derivative of f, with respect to (the independent variable) x, at the point $x = a$.

Recall that the value of this limit is, if it exists, is the slope of the line tangent to the curve $y = f(x)$ at the point $x = a$. As well, it also represents the instantaneous rate of change, with respect to x, of the function f at a. Therefore, a positive $f'(a)$ means that the function f is *increasing* at a, while a negative $f'(a)$ means that f is *decreasing* at a. If $f'(a) = 0$, then f is neither increasing nor decreasing at a.

Equivalently, the derivative can be stated as

$$f'(a) = \lim_{x\to a}\frac{f(x) - f(a)}{x - a}$$

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ex. Let $f(t) = t^5 + 6t$, find $f'(a)$.

$$f'(a) = \lim_{h \to 0} \frac{f(a+h) - f(a)}{h} = \lim_{h \to 0} \frac{[(a+h)^5 + 6(a+h)] - [a^5 + 6a]}{h}$$

$$= \lim_{h \to 0} \frac{[a^5 + 5a^4h + 10a^3h^2 + 10a^2h^3 + 5ah^4 + h^5 + 6a + 6h] - [a^5 + 6a]}{h}$$

$$= \lim_{h \to 0} \frac{5a^4h + 10a^3h^2 + 10a^2h^3 + 5ah^4 + h^5 + 6h}{h}$$

$$= \lim_{h \to 0} \frac{h(5a^4 + 10a^3h + 10a^2h^2 + 5ah^3 + h^4 + 6)}{h}$$

$$= \lim_{h \to 0} (5a^4 + 10a^3h + 10a^2h^2 + 5ah^3 + h^4 + 6) = 5a^4 + 6$$

ex. Let $f(x) = \sqrt{4x^2 + 5}$, find $f'(a)$. Write an equation of the line tangent to $y = f(x)$ when $a = 1$.

$$f'(a) = \lim_{h \to 0} \frac{f(a+h) - f(a)}{h} = \lim_{h \to 0} \frac{\sqrt{4(a+h)^2 + 5} - \sqrt{4a^2 + 5}}{h}$$

$$= \lim_{h \to 0} \frac{\sqrt{4(a+h)^2 + 5} - \sqrt{4a^2 + 5}}{h} \cdot \frac{\sqrt{4(a+h)^2 + 5} + \sqrt{4a^2 + 5}}{\sqrt{4(a+h)^2 + 5} + \sqrt{4a^2 + 5}}$$

$$= \lim_{h \to 0} \frac{4(a+h)^2 + 5 - (4a^2 + 5)}{h\left(\sqrt{4(a+h)^2 + 5} + \sqrt{4a^2 + 5}\right)} = \lim_{h \to 0} \frac{4a^2 + 8ah + 4h^2 + 5 - 4a^2 - 5}{h\left(\sqrt{4(a+h)^2 + 5} + \sqrt{4a^2 + 5}\right)}$$

$$= \lim_{h \to 0} \frac{8ah + 4h^2}{h\left(\sqrt{4(a+h)^2 + 5} + \sqrt{4a^2 + 5}\right)} = \lim_{h \to 0} \frac{8a + 4h}{\sqrt{4(a+h)^2 + 5} + \sqrt{4a^2 + 5}}$$

$$= \frac{8a + 4(0)}{\sqrt{4(a+0)^2 + 5} + \sqrt{4a^2 + 5}} = \frac{8a}{2\sqrt{4a^2 + 5}} = \frac{4a}{\sqrt{4a^2 + 5}}$$

At $a = 1$, the point on the curve, $(a, f(a))$ is $(1, 3)$, and the slope of the tangent line is $f'(1) = \frac{4}{3}$.

The equation of the line is, in point-slope form, therefore

$$y - 3 = \frac{4}{3}(x - 1)$$

or, in slope-intercept form,

$$y = \frac{4}{3}x + \frac{5}{3}.$$

ex. Let $f(x) = \frac{1}{\sqrt{x^2 + 3}}$, find $f'(a)$.

$$f'(a) = \lim_{h \to 0} \frac{f(a+h) - f(a)}{h} = \lim_{h \to 0} \frac{\frac{1}{\sqrt{(a+h)^2 + 3}} - \frac{1}{\sqrt{a^2 + 3}}}{h}$$

$$= \lim_{h \to 0} \frac{\frac{1}{\sqrt{(a+h)^2 + 3}} - \frac{1}{\sqrt{a^2 + 3}}}{h} \cdot \frac{\sqrt{(a+h)^2 + 3}\sqrt{a^2 + 3}}{\sqrt{(a+h)^2 + 3}\sqrt{a^2 + 3}}$$

$$= \lim_{h \to 0} \frac{\sqrt{a^2 + 3} - \sqrt{(a+h)^2 + 3}}{h(\sqrt{(a+h)^2 + 3})(\sqrt{a^2 + 3})}$$

$$= \lim_{h \to 0} \frac{\sqrt{a^2 + 3} - \sqrt{(a+h)^2 + 3}}{h(\sqrt{(a+h)^2 + 3})(\sqrt{a^2 + 3})} \cdot \frac{\sqrt{a^2 + 3} + \sqrt{(a+h)^2 + 3}}{\sqrt{a^2 + 3} + \sqrt{(a+h)^2 + 3}}$$

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$$= \lim_{h \to 0} \frac{(a^2 + 3) - (a^2 + 2ah + h^2 + 3)}{h(\sqrt{(a+h)^2 + 3})(\sqrt{a^2 + 3})(\sqrt{a^2 + 3} + \sqrt{(a+h)^2 + 3})}$$

$$= \lim_{h \to 0} \frac{-2ah - h^2}{h(\sqrt{(a+h)^2 + 3})(\sqrt{a^2 + 3})(\sqrt{a^2 + 3} + \sqrt{(a+h)^2 + 3})}$$

$$= \lim_{h \to 0} \frac{-2a - h}{(\sqrt{(a+h)^2 + 3})(\sqrt{a^2 + 3})(\sqrt{a^2 + 3} + \sqrt{(a+h)^2 + 3})} = \frac{-2a}{(\sqrt{a^2 + 3})(\sqrt{a^2 + 3})(2\sqrt{a^2 + 3})}$$

$$= \frac{-a}{(a^2 + 3)^{3/2}}$$

Basic Differentiation Formulas

Suppose f and g are differentiable functions, c is any real number, then

1. $\dfrac{d}{dx}(c) = 0$

2. $\dfrac{d}{dx}[f(x) + g(x)] = \dfrac{d}{dx}f(x) + \dfrac{d}{dx}g(x)$

3. $\dfrac{d}{dx}[f(x) - g(x)] = \dfrac{d}{dx}f(x) - \dfrac{d}{dx}g(x)$

4. $\dfrac{d}{dx}[c f(x)] = c \cdot \dfrac{d}{dx}f(x)$

5. $\dfrac{d}{dx}[f(x)g(x)] = f(x)\dfrac{d}{dx}[g(x)] + g(x)\dfrac{d}{dx}[f(x)]$

6. $\dfrac{d}{dx}\left[\dfrac{f(x)}{g(x)}\right] = \dfrac{g(x)\dfrac{d}{dx}[f(x)] - f(x)\dfrac{d}{dx}[g(x)]}{[g(x)]^2}$

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Or, in short-hand notations:

1. $(c)' = 0$

2. $[f(x) + g(x)]' = f'(x) + g'(x)$

3. $[f(x) - g(x)]' = f'(x) - g'(x)$

4. $[c f(x)]' = c f'(x)$

5. $[f(x)g(x)]' = f(x)g'(x) + g(x)f'(x)$

6. $\left[\dfrac{f(x)}{g(x)} \right]' = \dfrac{g(x)f'(x) - f(x)g'(x)}{[g(x)]^2}$

The Power Rule: For any real number n,

$$\frac{d}{dx}(x^n) = nx^{n-1}$$

For $n = 1$, this means that $\dfrac{d}{dx}(x) = 1 \cdot x^{1-1} = x^0 = 1$.

And if n = 0, then $\dfrac{d}{dx}(x^0) = \dfrac{d}{dx}(1) = 0 \cdot x^{0-1} = 0$, which is consistent with the constant rule of differentiation (rule #1 above).

ex. The instantaneous rate of change of a line

Suppose $f(x) = mx + b$, where m and b are constants, then

$$f'(x) = (mx)' + (b)' = m(x)' + (b)' = m(1) + 0 = m$$

Therefore, any linear function has a constant derivative equals to the slope of its graph, which is a line of slope m. It says that the instantaneous rate of change of a linear function

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is constant, and that the tangent line to the graph of a line is always the line itself (because the tangent line has the same slope as the line, and they obviously contain one common point, therefore they have the same equation and are therefore the same line).

ex. Differentiate $y = 2t^3 - t^{\pi} + t^{-2} + 9$

$y' = 2(t^3)' - (t^{\pi})' + (t^{-2})' + (9)' = 2(3t^2) - \pi t^{\pi-1} + (-2t^{-3}) + 0$

$= 6t^2 - \pi t^{\pi-1} - 2t^{-3}$

ex. Differentiate $s(t) = 5\sqrt{t} - \dfrac{2}{\sqrt{t}} + 4\sqrt[3]{t}$

This would be easier to do if we first rewrite $s(t)$ in terms of powers of x.

$s(t) = 5t^{1/2} - 2t^{-1/2} + 4t^{1/3}$, then

$s'(t) = 5\left(\dfrac{1}{2} t^{(\frac{1}{2}-1)}\right) - 2\left(\dfrac{-1}{2} t^{(\frac{-1}{2}-1)}\right) + 4\left(\dfrac{1}{3} t^{(\frac{1}{3}-1)}\right) = \dfrac{5}{2} t^{\frac{-1}{2}} + t^{\frac{-3}{2}} + \dfrac{4}{3} t^{\frac{-2}{3}}$

ex. Differentiate $f(x) = \dfrac{x^2 + 3x + 2}{x^2 - 3x + 2}$

$f'(x) = \dfrac{(x^2 - 3x + 2)(x^2 + 3x + 2)' - (x^2 + 3x + 2)(x^2 - 3x + 2)'}{(x^2 - 3x + 2)^2}$

$= \dfrac{(x^2 - 3x + 2)(2x + 3) - (x^2 + 3x + 2)(2x - 3)}{(x^2 - 3x + 2)^2}$

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ex. Differentiate $g(x) = \dfrac{2x^3 + 3x^2 - x + 5}{x^2}$

The easiest way to do this is to rewrite $g(x)$ as

$g(x) = 2x + 3 - \dfrac{1}{x} + \dfrac{5}{x^2}$, then

$g'(x) = 2(x)' + (3)' - (x^{-1})' + 5(x^{-2})' = 2 + 0 - (-x^{-2}) + 5(-2x^{-3})$

$= 2 + x^{-2} - 10x^{-3} = 2 + \dfrac{1}{x^2} - \dfrac{10}{x^3}$

ex. Differentiate $y = \sqrt{x}(x^2 - 5x + 2)$

Simplify first: $y = x^{5/2} - 5x^{3/2} + 2x^{1/2}$.

$y' = \dfrac{5}{2}x^{3/2} - 5\left(\dfrac{3}{2}x^{1/2}\right) + 2\left(\dfrac{1}{2}x^{-1/2}\right) = \dfrac{5}{2}x^{3/2} - \dfrac{15}{2}x^{1/2} + x^{-1/2}$

The longer way to do this is by using the product rule:

$y' = \sqrt{x}(x^2 - 5x + 2)' + (x^2 - 5x + 2)(\sqrt{x})' = \sqrt{x}(2x - 5) + (x^2 - 5x + 2)(\dfrac{1}{2}x^{-1/2})$

$= x^{1/2}(2x - 5) + (x^2 - 5x + 2)(\dfrac{1}{2}x^{-1/2}) = 2x^{3/2} - 5x^{1/2} + \dfrac{1}{2}x^{3/2} - \dfrac{5}{2}x^{1/2} + x^{-1/2}$

$= \dfrac{5}{2}x^{3/2} - \dfrac{15}{2}x^{1/2} + x^{-1/2}$

Derivatives of logarithmic and exponential functions

Formula. *The exponential rule. For the function of the type* $f(x) = a^x$, *where a is a constant, then* $f'(x) = a^x \ln a$. *Derivative of* $f(x) = e^x$ *is* $f'(x) = e^x$.

Example 1. *Find* $\dfrac{dy}{dx}$.

a. $f(x) = 3x^{20} + 10^x$ b. $f(x) = e^x + e^{5x}$

Solution. a. $\dfrac{df}{dx} = 60x^{19} + 10^x \ln 10,$ $b. \dfrac{df}{dx} = e^x + 5e^{5x}$

Formula. *For the logarithmic function* $f(x) = \ln x$, $f'(x) = \dfrac{1}{x}$.

Derivative of $f(x) = \log_a x$ *is* $f'(x) = \dfrac{1}{x \ln a}$.

Example 2. *Find* $\dfrac{dy}{dx}$.

a. $f(x) = 3 \ln x + 10$ b. $f(x) = \log x + 3$

Solution. a. $\dfrac{df}{dx} = \dfrac{3}{x},$ $b. \dfrac{df}{dx} = \dfrac{1}{x \ln 10}$

Example 1. *Find* $\dfrac{dy}{dx}$ *or* y'.

a. $3y^2 - 5xy + 9x - 2 = 0$ b. $y^2 = \log x + 3$

Solution. a. $6yy' - 5y - 5xy' + 9 = 0 \Rightarrow y' = \dfrac{5y - 9}{6y - 5x}$

     b. $2yy' = \dfrac{1}{x \ln 10} \Rightarrow y' = \dfrac{1}{2xy \ln 10}$

Example 2. *Find the slope of the tangent line to the curve* $3xy - 2x^2 = 7$ *at (1, 3). Also compute the second derivative.*

Solution. $3xy' + 3y - 4x = 0 \Rightarrow y' = \dfrac{4x - 3y}{3x} = \dfrac{4(1) - 3(3)}{3(1)} = -\dfrac{5}{3}$

For the second derivative we consider again $3xy' + 3y - 4x = 0$

Taking derivative we find $3xy'' + 3y' + 3y' - 4 = 0 \Rightarrow y'' = \dfrac{4 - 6y'}{3x} = \dfrac{6y - 4x}{3x^2} = \dfrac{14}{3}$

DEMAND AND SUPPLY

The market and its economic agents

Purpose of this lesson: to study the behaviour of people as they interact with one another in markets.

Market: a group of buyers and sellers of a particular good (or service).

Demand: represents the behaviour of buyers.

Supply: represents the behaviour of sellers.

Main assumption that we will use for the time being: markets are competitive.

Characteristics of a competitive market:

     a)   Goods offered for sale in one market are all the same.
     b)   Buyers and sellers are so numerous, that they individually cannot influence the market price. We say that both buyers and sellers are price takers.

Not all markets are competitive. If sellers are few and individually can influence the market price, then we say that markets are not competitive (oligopoly, monopoly).

The concepts of demand and supply

To be specific let us concentrate on one particular market: for example, the market for butter.

Demand

   • Factors that determine the quantity demanded of butter:

     a)   The price of the good. The higher the price, the lower the quantity demanded. This is the Law of demand.
     b)   Income. Normally, the richer people are, the more of a good they will buy. Let us call income m.
     c)   Prices of related goods.
x and y substitutes. Think of butter (x) and margarine (y).
$$p_y \downarrow \ \Rightarrow \ y \uparrow \ \Rightarrow \ x \downarrow;$$ Therefore p_y and x positively related.

     x and y complements. Think of butter (x) and bread (y)
$$p_y \downarrow \ \Rightarrow \ y \uparrow \ \Rightarrow \ x \uparrow;$$ Therefore p_y and x negatively related.
     d)   Tastes. Some people like butter, others like olive oil.

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- The demand curve

Suppose that we give a mathematical form to the relationship between butter (x) and the factors that determine the quantity demanded of butter.

$$x = 10 - 4p_x + 0.005m + 2p_y$$

Discuss signs.

Normally we do not want to work with so many variables. The ones we are interested in depend on the problem at hand. Suppose we are only interested in the price and quantity of butter, and that we are given the values of the other variables $m = 3,000€; \ p_y = 0.5€$. Then,

$$x = 10 - 4p_x + 0.005(3,000) + 2(0.5)$$
$$x = (10 + 15 + 1) - 4p_x$$

$$\boxed{x = 26 - 4p_x}$$

The expression in the box is the demand curve (or the demand function).
Suppose we have a market with three buyers: Ana, Víctor and Pilar. Each has the following demand curve:

Ana: $x_A = 10 - 2p_x$

Víctor: $x_V = 20 - 4p_x$

Pilar: $x_P = 15 - 3p_x$

We obtain the aggregate demand curve by adding horizontally (adding the x's).

$$x = x_A + x_V + x_P$$
$$= (10 - 2p_x) + (20 - 4p_x) + (15 - 3p_x)$$
$$= 45 - 9p_x$$

Therefore, the aggregate demand curve is

$$\boxed{x = 45 - 9p_x}$$

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2. A consumer buys 100 units of a product when the price is €1. When the price is increased to €1.25 the consumer buys 80 units. Calculate the Price Elasticity of demand for this consumer.

$$\frac{P1 + P2}{Q1 + Q2} \times \frac{\Delta Q}{\Delta P}$$

$$\frac{1 + 1.25}{100 + 80} \quad \text{x} \quad \frac{-20}{+0.25}$$

= -1

Demand for this good is unitary elastic as the answer is equal to 1

MAXIMA AND MINIMA

You are aware that in any transaction the total amount paid increases with the number of items purchased. Consider a function as $f(x) = 2x + 1, x > 0$. Let the function f(x) represent the amount required for purchasing 'x' number of items.

The graph of the function $y = f(x) = 2x + 1, x > 0$ for different values of x is shown in
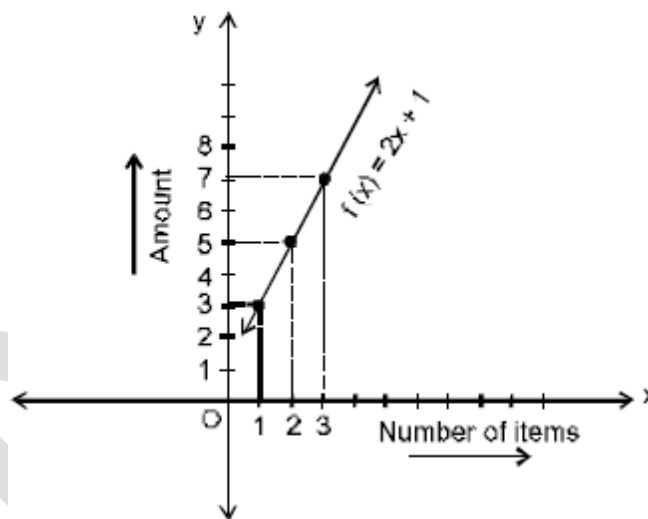
A look at the graph of the above function prompts us to believe that the function is increasing for positive values of x i.e., for x>0 Can you think of another example in which value of the function decreases when x increases ? Any such relation would be relationship between time and manpower/person(s) involved. You have learnt that they are inversely propotional . In other words we can say that time required to complete a certain work increases when number of persons (manpower) invovled decreases and vice-versa. Consider such similar function as

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$$g(x) = \frac{2}{x}, x > 0$$

The values of the function g (x) for different values of x are plotted
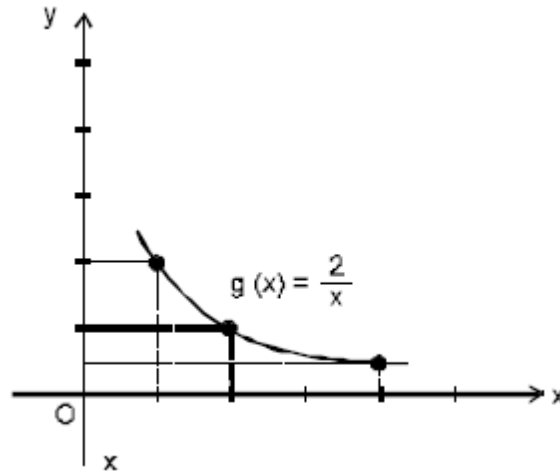
All these examples, despite the diversity of the variables involved, have one thing in common : function is either increasing or decreasing.

INCREASING AND DECREASING FUNCTIONS

Let a function $f(x)$ be defined over the closed interval [a,b].

Let $x_1, x_2 \in [a,b]$, then the function f(x) is said to be an increasing function in the given interval if $f(x_2) \geq f(x_1)$ whenever $x_2 > x_1$. It is said to be strictly increasing if $f(x_2) > f(x_1)$ for all $x_2 > x_1$, $x_1, x_2 \in [a,b]$.

In Fig. 25.3, sin x increases from -1 to +1 as x increases from $-\frac{\pi}{2}$ to $+\frac{\pi}{2}$.

Fig. 25. 3

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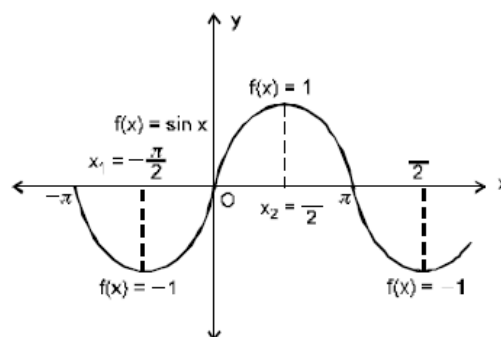
Note : A function is said to be an increasing function in an interval if $f(x+h) > f(x)$ for all x belonging to the interval when h is positive.

A function f(x) defined over the closed interval $[a, b]$ is said to be a decreasing function in the given interval, if $f(x_2) \leq f(x_1)$, whenever $x_2 > x_1$, $x_1, x_2 \in [a,b]$. It is said to be strictly decreasing if $f(x_1) > f(x_2)$ for all $x_2 > x_1$, $x_1, x_2 \in [a,b]$.

In Fig. 25.4, cos x decreases from 1 to −1 as x increases from 0 to π.
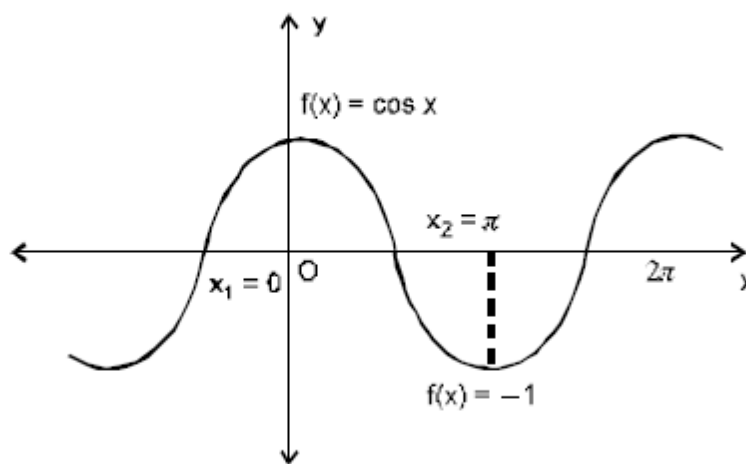
Fig. 25.4

Note : A function is said to be a decreasing in an internal if $f(x+h) < f(x)$ for all x belonging to the interval when h is positive.

Example

Prove that the function $f(x) = 4x + 7$ is monotonic for all values of $x \in R$.

Solution : Consider two values of x say $x_1, x_2 \in R$

such that $\qquad\qquad\qquad\qquad x_2 > x_1 \qquad\qquad\qquad\qquad$ .....(1)

Multiplying both sides of (1) by 4, we have $4x_2 > 4x_1 \qquad\qquad\qquad$ .....(2)

Adding 7 to both sides of (2), to get

$$4x_2 + 7 > 4x_1 + 7$$

We have $\qquad\qquad\qquad f(x_2) > f(x_1)$

Thus, we find $f(x_2) > f(x_1)$ whenever $x_2 > x_1$.

Hence the given function $f(x) = 4x + 7$ is monotonic function. (monotonically increasing).

Example

Show that

$$f(x) = x^2$$

is a strictly decreasing function for all $x < 0$.

Solution : Consider any two values of x say x_1, x_2 such that

$$x_2 > x_1, \qquad\qquad x_1, x_2 < 0 \qquad\qquad ....(i)$$

Order of the inequality reverses when it is multiplied by a negative number. Now multiplying (i) by x_2, we have

$$x_2 \cdot x_2 < x_1 \cdot x_2$$

or, $\qquad\qquad x_2^2 < x_1 x_2 \qquad\qquad ......(ii)$

Now multiplying (i) by x_1, we have

$$x_1 \cdot x_2 < x_1 \cdot x_1$$

or, $\qquad\qquad x_1 x_2 < x_1^2 \qquad\qquad .....(iii)$

From (ii) and (iii), we have

$$x_2^2 < x_1 x_2 < x_1^2$$

or, $\qquad\qquad x_2^2 < x_1^2$

or, $\qquad\qquad f(x_2) < f(x_1)$

Thus, from (i) and (iv), we have for

$$x_2 > x_1,$$

$$f(x_2) < f(x_1)$$

Hence, the given function is strictly decreasing for all $x < 0$.

Example

Find the interval in which $f(x) = 2x^3 - 3x^2 - 12x + 6$ is increasing or decreasing.

Solution : $f(x) = 2x^3 - 3x^2 - 12x + 6$

$$f'(x) = 6x^2 - 6x - 12$$

$$= 6(x^2 - x - 2)$$

$$= 6(x - 2)(x + 1)$$

For $f(x)$ to be increasing function of x,

$$f'(x) > 0$$

i.e. $6(x - 2)(x + 1) > 0$ or, $(x - 2)(x + 1) > 0$

Since the product of two factors is positive, this implies either both are positive or both are negative.

Either	$x - 2 > 0$ and $x + 1 > 0$	or	$x - 2 < 0$ and $x + 1 < 0$
i.e.	$x > 2$ and $x > -1$	i.e.	$x < 2$ and $x < -1$
	$x > 2$ implies $x > -1$		$x < -1$ implies $x < 2$
$\therefore$	$x > 2$	$\therefore$	$x < -1$

Hence $f(x)$ is increasing for $x > 2$ or $x < -1$.

Now, for $f(x)$ to be decreasing,

$$f'(x) < 0$$

or, $6(x-2)(x+1) < 0$ or, $(x-2)(x+1) < 0$

Since the product of two factors is negative, only one of them can be negative, the other positive.

Therefore,

Either   or

$x - 2 > 0$ and $x + 1 < 0$	$x - 2 < 0$ and $x + 1 > 0$
i.e. $x > 2$ and $x < -1$	i.e. $x < 2$ and $x > -1$
There is no such possibility	This can be put in this form
that $x > 2$ and at the same time	
$x < -1$	$-1 < x < 2$

$\therefore$ The function is decreasing in $-1 < x < 2$.

Example

Determine the intervals for which the function $f(x) = \dfrac{x}{x^2 + 1}$ is increasing or decreasing.

Solution : $\quad f'(x) = \dfrac{\left(x^2 + 1\right)\dfrac{dx}{dx} - x \cdot \dfrac{d}{dx}\left(x^2 + 1\right)}{\left(x^2 + 1\right)^2}$

$$= \dfrac{\left(x^2 + 1\right) - x \cdot (2x)}{\left(x^2 + 1\right)^2}$$

$$= \dfrac{1 - x^2}{\left(x^2 + 1\right)^2}$$

$\therefore \qquad\qquad f'x = \dfrac{(1 - x)(1 + x)}{\left(x^2 + 1\right)^2}$

As $\left(x^2 + 1\right)^2$ is positive for all real x.

Therefore, if $-1 < x < 0, (1 - x)$ is positive and $(1 + x)$ is positive, so $f'(x) > 0$;

$\therefore$ If $\qquad 0 < x < 1, (1 - x)$ is positive and $(1 + x)$ is positive, so f $f'(x) > 0$;

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POSSIBLE QUESTIONS

PART – B (5 x 2 = 10 Marks)

1. What are the types of Functions?
2. Define derivative.
3. If $f(x)=(x^2-7)^2$, find $f''(x)$.
4. Find the derivative of x^3-3x^2+4x+3
5. Define limit of a function.
6. Find $\lim_{x\to 1} \frac{x^3+1}{2x^2+5x=3}$
7. Define elasticity of supply.
8. Define elasticity of demand.
9. Find $\frac{dy}{dx}$, if $y = (2x + 5)^3$

PART – C (5 x 6 = 30 Marks)

1. A firm sells a product at Rs.3 per unit. The total cost of the firm for producing x units is given by $C=20+0.6x+0.001x^2$. How many units should be made to achieve maximum profit? Verify that the condition for a maximum is satisfied.
2. If the demand law is $x = \frac{20}{p+1}$ find the elasticity of demand at the point when p=3.
3. Find the elasticity of supply from the function p = -2+5x.
4. Find $\frac{dy}{dx}$ i) $x^2 + y^2 = 1$ ii) $xy = c^2$
5. If $f(x) = \frac{x^3-2x^2+50}{x^2}$ find $f'(5)$ and $f'(10)$.
6. Differentiate the following with respect to x
    (i) x^3-3x^2+4x+3 (ii) $x^5 + 3\log x - 4e^x$

7. Differentiate the following with respect to x
    (i) $y = (x^2 + 5)(3x + 1)$ (ii) $y = \frac{3x^2}{4x-1}$
8. Find $\lim_{x\to 0} \frac{(1+x)^4-1}{(1+x)^2-1}$
9. Find $\lim_{x\to 0} \frac{1-\sqrt{1-x^2}}{x^2}$
10. Find $\lim_{x\to 3} \frac{x^2+x-12}{x^2-x-6}$
11. If the demand law is $x = \frac{20}{p+1}$, find the elasticity of demand at the point when p=3.
12. Find for what values of x, the following expression is maximum and minimum respectively. $2x^3 - 21x^2 + 36x - 20$. find also the maximum and the minimum values.

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Subject: Business Mathematics &Statistics			Subject Code: 17CMU202	
Class : I B.Com			Semester : II	

UNIT -II

Differential Calculus

PART A (20x1=20 Marks)

(Question Nos. 1 to 20 Online Examinations)

Possible Questions

Question	Choice 1	Choice 2	Choice 3	Choice 4	
Quantities which take the same values throughout particular investigation are called_____	Constants	Variables	Functions	Integers	
Quantities which change that is different values in an investigation are called_____	Constants	Variables	Functions	Integers	
The gross profit ddepends on the sales and the volume of a sphere depends on its_____	Circle	Square	Radius	Diameter	
Two variables x and y are said to be function of each other when the values of one of them _____ on those of ther. other	Independent	propotional	depend	perpendicular	
If corresponding to each value of x, there is only one value of y then y is called_____Valued	Single	many	two	three	
If corresponding to each value of x, there existsmore than one value of y then y is called_____Valued	Single	many	two	three	
The relation between two variables can be expressed in the form y=f(x), y is_____	implicit	explicit	odd	even	
The relation between two variables can be expressed in the formf(x,y)=0, y is_____	implicit	explicit	odd	even	
If f(-x)=f(x) then f(x) is called_____	odd	even	implicit	explicit	
If f(-x)=-f(x) then f(x) is called_____	odd	even	implicit	explicit	
y=a0+a1x+……….anxn is called_____ function.	odd	even	implicit	polynomial	

Limit x tends to a f(x)=1 is _____ function.	limit	even	implicit	polynomial	
Limit h tends to 0 f(a-h)=l1 is _____ limit	Right hand	Left hand	finite	infinite	
Limit h tends to 0 f(a+h)=l1 is _____ limit	Right hand	Left hand	finite	infinite	
If left hand limit = right hand limit then limit _____	does not exists	zero	exists	one	
If the limit is in indeterminant form then apply the method of _____	Induction	partial fraction	Integration	factorization	
If the limit is in indeterminant form then apply the method of _____	rationalisation	Induction	partial fraction	Integration	
If the limit is in indeterminant form then apply the method of _____	Induction	partial fraction	Substitution	Integration	
If the limit is in indeterminant form then apply the method of _____	Induction	partial fraction	Integration	L'Hospitals	
If the limit is in indeterminant form then apply the method of _____	Induction	partial fraction	Integration	Infinite Limit	
The rate of change of the object is called_____	Derivative	Induction	Integration	Velocity	
The process of finding derivatives are called_____	Integration	Differentiation	Induction	Acceleration	
Derivative of exponential is _____	algebra	exponential	logerthms	function	
Derivative of constant is _____	one	two	three	zero	
One of the rule of differentiation is _____	addition	commutative	assiciative	closure	
One of the rule of differentiation is _____	commutative	assiciative	closure	Difference	
One of the rule of differentiation is _____	commutative	Product	closure	assiciative	
One of the rule of differentiation is _____	closure	assiciative	Quotient	commutative	
If x is function of t and y is function of t then it is in _____ form.	closure	assiciative	Quotient	Parametric	
Process of finding second derivative ,third derivative etc is called _____differentiation.	Initial	final	Successive	Single	
One of the application of Differentiation is _____	Boundary	Elasticity	Simple Interest	Compound Interest	
If the graph of the function rises then the function is _____ function	Decreasing	Increasing	rising	falling	
If the graph of the function fallss then the function is _____ function	Decreasing	Increasing	rising	falling	
If the first dereivative zero and the second derivative less than zero then function is _____	Minima	Maxima	Optima	Extrima	

Prepared by: R. Praveen Kumar, Department of Mathematics, KAHE

If the first dereivative zero and the second derivative greater than zero then function is _____	Minima	Maxima	Optima	Extrima	
Answer					
Constants					
Variables					
Radius					
depend					
Single					
many					
explicit					
implicit					
even					
odd					
polynomial					
limit					
Left hand					
Right hand					
exists					
factorization					
rationalisation					
Substitution					
L'Hospitals					
Infinite Limit					
Derivative					
Differentiation					
exponential					
zero					
addition					
Difference					
Product					
Quotient					
Parametric					
Successive					

Elasticity					
Increasing					
Decreasing					
Maxima					
Minima					

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UNIT – III

SYLLABUS

Uni-variate Analysis
Measures of Central Tendency including arithmetic mean, geometric mean and harmonic mean: properties and applications; mode and median. Partition values - quartiles, deciles, and percentiles. Measures of Variation: absolute and relative. Range, quartile deviation and mean deviation; Variance and Standard deviation: calculation and properties.

Measures of Central Tendency:

In the study of a population with respect to one in which we are interested we may get a large number of observations. It is not possible to grasp any idea about the characteristic when we look at all the observations. So it is better to get one number for one group. That number must be a good representative one for all the observations to give a clear picture of that characteristic. Such representative number can be a central value for all these observations. This central value is called a measure of central tendency or an average or a measure of locations. There are five averages. Among them mean, median and mode are called simple averages and the other two averages geometric mean and harmonic mean are called special averages.

Characteristics for a good or an ideal average :

The following properties should possess for an ideal average.
1. It should be rigidly defined.
2. It should be easy to understand and compute.
3. It should be based on all items in the data.
4. Its definition shall be in the form of a mathematical formula.
5. It should be capable of further algebraic treatment.
6. It should have sampling stability.
7. It should be capable of being used in further statistical computations or processing.

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Arithmetic mean or mean :

Arithmetic mean or simply the mean of a variable is defined as the sum of the observations divided by the number of observations. If the variable x assumes n values $x_1, x_2 .. x_n$ then the mean, $\bar{x}$, is given by

$$\bar{x} = \frac{x_1 + x_2 + x_3 + ... + x_n}{n}$$

$$= \frac{1}{n} \sum_{i=1}^{n} x_i$$

This formula is for the ungrouped or raw data.

Example 1 :

Calculate the mean for 2, 4, 6, 8, 10

Solution:

$$\bar{x} = \frac{2 + 4 + 6 + 8 + 10}{5}$$

$$= \frac{30}{5} = 6$$

Short-Cut method :

Under this method an assumed or an arbitrary average (indicated by A) is used as the basis of calculation of deviations from individual values. The formula is

$$\bar{x} = A + \frac{\sum d}{n}$$

where, A = the assumed mean or any value in x

        d = the deviation of each value from the assumed mean

Example 2 :

A student's marks in 5 subjects are 75, 68, 80, 92, 56. Find his average mark.

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Solution:

	X	d=x-A
	75	7
A	68	0
	80	12
	92	24
	56	-12
Total		31

$$\bar{x} = A + \frac{\sum d}{n}$$

$$= 68 + \frac{31}{5}$$

$$= 68 + 6.2$$

$$= 74.2$$

Grouped Data :

The mean for grouped data is obtained from the following formula:

$$\bar{x} = \frac{\sum fx}{N}$$

where x = the mid-point of individual class

       f = the frequency of individual class

       N = the sum of the frequencies or total frequencies.

Short-cut method :

$$\bar{x} = A + \frac{\sum fd}{N} \times c$$

where $d = \frac{x-A}{c}$

      A = any value in x

      N = total frequency

      c = width of the class interval

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Example 3:

Given the following frequency distribution, calculate the arithmetic mean

Marks	: 64	63	62	61	60	59

Number of Students	: 8	18	12	9	7	6

Solution:

X	F	fx	d=x-A	fd
64	8	512	2	16
63	18	1134	1	18
62	12	744	0	0
61	9	549	−1	−9
60	7	420	−2	−14
59	6	354	−3	−18
	60	3713		- 7

Direct method

$$\bar{x} = \frac{\sum fx}{N} = \frac{3713}{60} = 61.88$$

Short-cut method

$$\bar{x} = A + \frac{\sum fd}{N} = 62 - \frac{7}{60} = 61.88$$

Example 4 :

Following is the distribution of persons according to different income groups. Calculate arithmetic mean.

Income Rs(100)	0-10	10-20	20-30	30-40	40-50	50-60	60-70
Number of persons	6	8	10	12	7	4	3

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Solution:

Income C.I	Number of Persons (f)	Mid X	$d = \dfrac{x - A}{c}$	Fd
0-10	6	5	-3	-18
10-20	8	15	-2	-16
20-30	10	25	-1	-10
30-40	12	A 35	0	0
40-50	7	45	1	7
50-60	4	55	2	8
60-70	3	65	3	9
	50			-20

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$$\text{Mean} = \bar{x} = A + \frac{\Sigma fd}{N}$$

$$= 35 - \frac{20}{50} \times 10$$

$$= 35 - 4$$

$$= 31$$

Merits and demerits of Arithmetic mean :
Merits:

1. It is rigidly defined.
2. It is easy to understand and easy to calculate.
3. If the number of items is sufficiently large, it is more accurate and more reliable.
4. It is a calculated value and is not based on its position in the series.
5. It is possible to calculate even if some of the details of the data are lacking.
6. Of all averages, it is affected least by fluctuations of sampling.
7. It provides a good basis for comparison.

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Demerits:

1. It cannot be obtained by inspection nor located through a frequency graph.
2. It cannot be in the study of qualitative phenomena not capable of numerical measurement i.e. Intelligence, beauty, honesty etc.,
3. It can ignore any single item only at the risk of losing its accuracy.
4. It is affected very much by extreme values.
5. It cannot be calculated for open-end classes.
6. It may lead to fallacious conclusions, if the details of the data from which it is computed are not given.

Median :

The median is that value of the variate which divides the group into two equal parts, one part comprising all values greater, and the other, all values less than median.

Ungrouped or Raw data :

Arrange the given values in the increasing or decreasing order. If the number of values are odd, median is the middle value .If the number of values are even, median is the mean of middle two values.

By formula

$$\text{Median} = \text{Md} = \left(\frac{n+1}{2}\right)^{\text{th}} \text{item.}$$

Example 11:

When odd number of values are given. Find median for the following data

     25, 18, 27, 10, 8, 30, 42, 20, 53

Solution:

Arranging the data in the increasing order 8, 10, 18, 20, 25, 27, 30, 42, 53

The middle value is the 5th item i.e., 25 is the median

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Using formula

$$Md = \left(\frac{n+1}{2}\right)^{th} item.$$

$$= \left(\frac{9+1}{2}\right)^{th} item.$$

$$= \left(\frac{10}{2}\right)^{th} item$$

$$= 5^{th} item$$

$$= 25$$

Example 12 :

When even number of values are given. Find median for the following data

5, 8, 12, 30, 18, 10, 2, 22

Solution:

Arranging the data in the increasing order 2, 5, 8, 10, 12, 18, 22, 30

Here median is the mean of the middle two items (ie) mean of (10,12) ie

$$= \left(\frac{10+12}{2}\right) = 11$$

$\therefore$ median $= 11$.

Using the formula

$$Median = \left(\frac{n+1}{2}\right)^{th} item.$$

$$= \left(\frac{8+1}{2} \right)^{th} \text{ item.}$$

$$= \left(\frac{9}{2} \right)^{th} \text{ item } = 4.5^{th} \text{ item}$$

$$= 4^{th} \text{ item} + \left(\frac{1}{2} \right)(5^{th} \text{ item} - 4^{th} \text{ item})$$

$$= 10 + \left(\frac{1}{2} \right)[12\text{-}10]$$

$$= 10 + \left(\frac{1}{2} \right) \times 2$$

$$= 10 + 1$$

$$= 11$$

Example 13:

The following table represents the marks obtained by a batch of 10 students in certain class tests in statistics and Accountancy.

Serial No	1	2	3	4	5	6	7	8	9	10
Marks (Statistics)	53	55	52	32	30	60	47	46	35	28
Marks (Accountancy)	57	45	24	31	25	84	43	80	32	72

Indicate in which subject is the level of knowledge higher ?

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Solution:

For such question, median is the most suitable measure of central tendency. The mark in the two subjects are first arranged in increasing order as follows:

Serial No	1	2	3	4	5	6	7	8	9	10
Marks in Statistics	28	30	32	35	46	47	52	53	55	60
Marks in Accountancy	24	25	31	32	43	45	57	72	80	84

$$\text{Median} = \left(\frac{n+1}{2}\right)^{th} \text{item} = \left(\frac{10+1}{2}\right)^{th} \text{item} = 5.5^{th} \text{item}$$

$$= \frac{Value\ of\ 5^{th}\ item + value\ of\ 6^{th}\ item}{2}$$

$$\text{Md (Statistics)} = \frac{46 + 47}{2} = 46.5$$

$$\text{Md (Accountancy)} = \frac{43 + 45}{2} = 44$$

There fore the level of knowledge in Statistics is higher than that in Accountancy.

Grouped Data:

In a grouped distribution, values are associated with frequencies. Grouping can be in the form of a discrete frequency distribution or a continuous frequency distribution. Whatever may be the type of distribution , cumulative frequencies have to be calculated to know the total number of items.

Cumulative frequency : (cf)

Cumulative frequency of each class is the sum of the frequency of the class and the frequencies of the pervious classes, ie adding the frequencies successively, so that the last cumulative frequency gives the total number of items.

Discrete Series:

Step1: Find cumulative frequencies.

Step2: Find $\left(\dfrac{N+1}{2} \right)$

Step3: See in the cumulative frequencies the value just greater than $\left(\dfrac{N+1}{2} \right)$

Step4: Then the corresponding value of x is median.

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Example 14:

The following data pertaining to the number of members in a family. Find median size of the family.

Number of members x	1	2	3	4	5	6	7	8	9	10	11	12
Frequency F	1	3	5	6	10	13	9	5	3	2	2	1

Solution:

X	f	cf
1	1	1
2	3	4
3	5	9
4	6	15
5	10	25
6	13	38
7	9	47
8	5	52
9	3	55
10	2	57
11	2	59
12	1	60
	60	

Median = size $\text{of}\left(\dfrac{N+1}{2}\right)^{th}$ item

$$= \text{size of} \left(\frac{60+1}{2} \right)^{\text{th}} \text{item}$$

$$= 30.5^{\text{th}} \text{item}$$

The cumulative frequencies just greater than 30.5 is 38.and the value of x corresponding to 38 is 6.Hence the median size is 6 members per family.

Continuous Series:

The steps given below are followed for the calculation of median in continuous series.

Step1: Find cumulative frequencies.

Step2: Find $\left(\dfrac{N}{2} \right)$

Step3: See in the cumulative frequency the value first greater than $\left(\dfrac{N}{2} \right)$. Then the corresponding class interval is called the Median class. Then apply the formula

$$\text{Median} \; = \; l + \frac{\dfrac{N}{2} - m}{f} \times c$$

Where l = Lower limit of the median class

            m = cumulative frequency preceding the median

            c = width of the median class

            f =frequency in the median class.

            N=Total frequency.

Example 15:

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The following table gives the frequency distribution of 325 workers of a factory, according to their average monthly income in a certain year.

Income group (in Rs)	Number of workers
Below 100	1
100-150	20
150-200	42
200-250	55
250-300	62
300-350	45
350-400	30
400-450	25
450-500	15
500-550	18
550-600	10
600 and above	2
	325

Calculate median income

Solution:

Income group (Class-interval)	Number of workers (Frequency)	Cumulative frequency c.f
Below 100	1	1
100-150	20	21
150-200	42	63
200-250	55	118
250-300	62	180
300-350	45	225
350-400	30	255
400-450	25	280
450-500	15	295
500-550	18	313
550-600	10	323
600 and above	2	325
	325	

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$$\frac{N}{2} = \frac{325}{2} = 162.5$$

Here $l = 250$, $N = 325$, $f = 62$, $c = 50$, $m = 118$

$$Md = 250 + \left(\frac{162.5 - 118}{62}\right) \times 50$$

$$= 250 + 35.89$$
$$= 285.89$$

Example 16:

Following are the daily wages of workers in a textile. Find the median.

Wages (in Rs.)	Number of workers
less than 100	5
less than 200	12
less than 300	20
less than 400	32
less than 500	40
less than 600	45
less than 700	52
less than 800	60
less than 900	68
less than 1000	75

Solution :

    We are given upper limit and less than cumulative frequencies. First find the class-intervals and the frequencies. Since the values are increasing by 100, hence the width of the class interval equal to 100.

Class interval	f	c.f
0-100	5	5
100-200	7	12
200-300	8	20
300- 400	12	32
400-500	8	40
500-600	5	45
600-700	7	52
700-800	8	60
800-900	8	68
900-1000	7	75
	75	

$$\left(\frac{N}{2}\right) = \left(\frac{75}{2}\right) = 37.5$$

$$Md = l + \left(\frac{\frac{N}{2} - m}{f}\right) \times c$$

$$= 400 + \left(\frac{37.5 - 32}{8}\right) \times 100 = 400 + 68.75 = 468.75$$

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Merits of Median :

1. Median is not influenced by extreme values because it is a positional average.
2. Median can be calculated in case of distribution with open-end intervals.
3. Median can be located even if the data are incomplete.
4. Median can be located even for qualitative factors such as ability, honesty etc.

Demerits of Median :

1. A slight change in the series may bring drastic change in median value.
2. In case of even number of items or continuous series, median is an estimated value other than any value in the series.
3. It is not suitable for further mathematical treatment except its use in mean deviation.
4. It is not taken into account all the observations.

Mode :

       The mode refers to that value in a distribution, which occur most frequently. It is an actual value, which has the highest concentration of items in and around it.

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Computation of the mode:
Ungrouped or Raw Data:

For ungrouped data or a series of individual observations, mode is often found by mere inspection.

Example 29:

2 , 7, 10, 15, 10, 17, 8, 10, 2

$$\therefore \text{Mode} = M_0 = 10$$

In some cases the mode may be absent while in some cases there may be more than one mode.

Example 30:

1. 12, 10, 15, 24, 30 (no mode)
2. 7, 10, 15, 12, 7, 14, 24, 10, 7, 20, 10

∴ the modes are 7 and 10

Grouped Data:

For Discrete distribution, see the highest frequency and corresponding value of X is mode.

Continuous distribution :

See the highest frequency then the corresponding value of class interval is called the modal class. Then apply the formula.

$$\text{Mode} = M_0 = l + \frac{\Delta_1}{\Delta_1 + \Delta_2} \times C$$

l = Lower limit of the model class

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$$\triangle_1 = f_1 - f_0$$
$$\triangle_2 = f_1 - f_2$$

f_1 = frequency of the modal class

f_0 = frequency of the class preceding the modal class

f_2 = frequency of the class succeeding the modal class

The above formula can also be written as

$$\text{Mode} = l + \frac{f_1 - f_0}{2f_1 - f_0 - f_2} \times c$$

Example 31:

Calculate mode for the following :

C- I	f
0-50	5
50-100	14
100-150	40
150-200	91
200-250	150
250-300	87
300-350	60
350-400	38
400 and above	15

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Solution:

The highest frequency is 150 and corresponding class interval is 200 – 250, which is the modal class.

Here $l=200, f_1=150, f_0=91, f_2=87, C=50$

$$\text{Mode} = M_0 = 1 + \frac{f_1 - f_0}{2f_1 - f_0 - f_2} \times c$$

$$= 200 + \frac{150 - 91}{2 \times 150 - 91 - 87} \times 50$$

$$= 200 + \frac{2950}{122}$$

$$= 200 + 24.18 = 224.18$$

Determination of Modal class :

For a frequency distribution modal class corresponds to the maximum frequency. But in any one (or more) of the following cases

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i.If the maximum frequency is repeated

ii.If the maximum frequency occurs in the beginning or at the end of the distribution

iii.If there are irregularities in the distribution, the modal class is determined by the method of grouping.

Steps for Calculation :

We prepare a grouping table with 6 columns

1. In column I, we write down the given frequencies.
2. Column II is obtained by combining the frequencies two by two.
3. Leave the 1st frequency and combine the remaining frequencies two by two and write in column III
4. Column IV is obtained by combining the frequencies three by three.
5. Leave the 1st frequency and combine the remaining frequencies three by three and write in column V
6. Leave the 1st and 2nd frequencies and combine the remaining frequencies three by three and write in column VI

Mark the highest frequency in each column. Then form an analysis table to find the modal class. After finding the modal class use the formula to calculate the modal value.

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Example 32:

Calculate mode for the following frequency distribution.

Class interval	0-5	5-10	10-15	15-20	20-25	25-30	30-35	35-40
Frequency	9	12	15	16	17	15	10	13

Grouping Table

C I	f	2	3	4	5	6
0- 5	9					
5-10	12	21		36		
10-15	15		27		43	
15-20	16	31				48
20-25	**17**		33	48		
25-30	15	**32**			42	38
30-35	10		25			
35-40	13	23				

Analysis Table

Columns	0-5	5-10	10-15	15-20	20-25	25-30	30-35	35-40
1					1			
2					1	1		
3				1	1			
4				1	1	1		
5		1	1	1				
6			1	1	1			
Total		1	2	4	5	2		

The maximum occurred corresponding to 20-25, and hence it is the modal class.

$$\text{Mode} = Mo = l + \frac{\Delta_1}{\Delta_1 + \Delta_2} \times C$$

Here $l = 20$; $\Delta_1 = f_1 - f_0 = 17 - 16 = 1$

$\Delta_2 = f_1 - f_2 = 17 - 15 = 2$

$$\therefore M_0 = 20 + \frac{1}{1+2} \times 5$$

$$= 20 + 1.67 = 21.67$$

MEASURES OF DISPERSION

Characteristics of a good measure of dispersion:

An ideal measure of dispersion is expected to possess the following properties

    1.It should be rigidly defined

    2. It should be based on all the items.

    3. It should not be unduly affected by extreme items.

4. It should lend itself for algebraic manipulation.
5. It should be simple to understand and easy to calculate

Absolute and Relative Measures :

There are two kinds of measures of dispersion, namely
1. Absolute measure of dispersion
2. Relative measure of dispersion.

The various absolute and relative measures of dispersion are listed below.

Absolute measure	**Relative measure**
1. Range	1.Co-efficient of Range
2.Quartile deviation	2.Co-efficient of Quartile deviation
3.Mean deviation	3. Co-efficient of Mean deviation
4.Standard deviation	4.Co-efficient of variation

7.3 Range and coefficient of Range:

7.3.1 Range:

This is the simplest possible measure of dispersion and is defined as the difference between the largest and smallest values of the variable.

In symbols, Range $= L - S$.
Where L = Largest value.
         S = Smallest value.

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In individual observations and discrete series, L and S are easily identified. In continuous series, the following two methods are followed.

Method 1:

L = Upper boundary of the highest class
S = Lower boundary of the lowest class.

Method 2:

L = Mid value of the highest class.
S = Mid value of the lowest class.

7.3.2   Co-efficient of Range :

$$\text{Co-efficient of Range} = \frac{L - S}{L + S}$$

Example1:

Find the value of range and its co-efficient for the following data.

7, 9, 6, 8, 11, 10, 4

Solution:

L=11, S = 4.

Range   = L – S   = 11- 4 = 7

$$\text{Co-efficient of Range} = \frac{L - S}{L + S}$$

$$= \frac{11 - 4}{11 + 4}$$

$$= \frac{7}{15} = 0.4667$$

Example 2:

Calculate range and its co efficient from the following distribution.

Size:	60-63	63-66	66-69	69-72	72-75
Number:	5	18	42	27	8

Solution:

L = Upper boundary of the highest class.
   = 75

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$$S = \text{Lower boundary of the lowest class.}$$
$$= 60$$

$$\text{Range} = L - S = 75 - 60 = 15$$

$$\text{Co-efficient of Range} = \frac{L - S}{L + S}$$

$$= \frac{75 - 60}{75 + 60}$$

$$= \frac{15}{135} = 0.1111$$

7.3.3 Merits and Demerits of Range :

Merits:

1. It is simple to understand.
2. It is easy to calculate.
3. In certain types of problems like quality control, weather forecasts, share price analysis, et c., range is most widely used.

Demerits:

1. It is very much affected by the extreme items.
2. It is based on only two extreme observations.
3. It cannot be calculated from open-end class intervals.
4. It is not suitable for mathematical treatment.
5. It is a very rarely used measure.

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7.6 Standard Deviation and Coefficient of variation:
7.6.1 Standard Deviation :

Karl Pearson introduced the concept of standard deviation in 1893. It is the most important measure of dispersion and is widely used in many statistical formulae. Standard deviation is also called Root-Mean Square Deviation. The reason is that it is the square–root of the mean of the squared deviation from the arithmetic mean. It provides accurate result. Square of standard deviation is called Variance.

Definition:

It is defined as the positive square-root of the arithmetic mean of the Square of the deviations of the given observation from their arithmetic mean.

The standard deviation is denoted by the Greek letter σ (sigma)

7.6.2 Calculation of Standard deviation-Individual Series :

There are two methods of calculating Standard deviation in an individual series.

      a) Deviations taken from Actual mean
      b) Deviation taken from Assumed mean

a) Deviation taken from Actual mean:
This method is adopted when the mean is a whole number.
Steps:
    1. Find out the actual mean of the series ($\bar{x}$)
    2. Find out the deviation of each value from the mean
      $(x = X - \bar{X})$
    3. Square the deviations and take the total of squared deviations $\sum x^2$

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4. Divide the total (Σx^2) by the number of observation $\left(\dfrac{\Sigma x^2}{n} \right)$

The square root of $\left(\dfrac{\Sigma x^2}{n} \right)$ is standard deviation.

Thus $\sigma = \sqrt{\left(\dfrac{\Sigma x^2}{n} \right)}$ or $\sqrt{\dfrac{\Sigma (x - \bar{x})^2}{n}}$

b) Deviations taken from assumed mean:

   This method is adopted when the arithmetic mean is fractional value.

   Taking deviations from fractional value would be a very difficult and tedious task. To save time and labour, We apply short –cut method; deviations are taken from an assumed mean. The formula is:

$$\sigma = \sqrt{\dfrac{\Sigma d^2}{N} - \left(\dfrac{\Sigma d}{N} \right)^2}$$

Where d-stands for the deviation from assumed mean = (X-A)

Steps:

1. Assume any one of the item in the series as an average (A)
2. Find out the deviations from the assumed mean; i.e., X-A denoted by d and also the total of the deviations Σd
3. Square the deviations; i.e., d^2 and add up the squares of deviations, i.e, Σd^2
4. Then substitute the values in the following formula:

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$$\sigma = \sqrt{\frac{\sum d^2}{n} - \left(\frac{\sum d}{n}\right)^2}$$

Note: We can also use the simplified formula for standard deviation.

$$\sigma = \frac{1}{n}\sqrt{n\sum d^2 - (\sum d)^2}$$

For the frequency distribution

$$\sigma = \frac{c}{N}\sqrt{N\sum fd^2 - (\sum fd)^2}$$

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Example 9:

Calculate the standard deviation from the following data.

14, 22, 9, 15, 20, 17, 12, 11

Solution:

Deviations from actual mean.

Values (X)	$X - \overline{X}$	$(X - \overline{X})^2$
14	-1	1
22	7	49
9	-6	36
15	0	0
20	5	25
17	2	4
12	-3	9
11	-4	16
120		140

$$\overline{X} = \frac{120}{8} = 15$$

$$\sigma = \sqrt{\frac{\Sigma(x - \overline{x})^2}{n}}$$

$$= \sqrt{\frac{140}{8}}$$

$$= \sqrt{17.5} = 4.18$$

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Example 10:

The table below gives the marks obtained by 10 students in statistics. Calculate standard deviation.

Student Nos :	1	2	3	4	5	6	7	8	9	10
Marks :	43	48	65	57	31	60	37	48	78	59

Solution: (Deviations from assumed mean)

Nos.	Marks (x)	d=X-A (A=57)	d^2
1	43	-14	196
2	48	-9	81
3	65	8	64
4	57	0	0
5	31	-26	676
6	60	3	9
7	37	-20	400
8	48	-9	81
9	78	21	441
10	59	2	4
n = 10		$\Sigma d = -44$	$\Sigma d^2 = 1952$

$$\sigma = \sqrt{\frac{\Sigma d^2}{n} - \left(\frac{\Sigma d}{n}\right)^2}$$

$$= \sqrt{\frac{1952}{10} - \left(\frac{-44}{10}\right)^2}$$

$$= \sqrt{195.2 - 19.36}$$

$$= \sqrt{175.84} = 13.26$$

7.6.3 Calculation of standard deviation:
Discrete Series:

There are three methods for calculating standard deviation in discrete series:

    (a) Actual mean methods
    (b) Assumed mean method
    (c) Step-deviation method.

(a) Actual mean method:
Steps:

1. Calculate the mean of the series.
2. Find deviations for various items from the means i.e.,

    $x - \bar{x} = d.$

3. Square the deviations $(= d^2)$ and multiply by the respective frequencies(f) we get fd^2
4. Total to product $(\sum fd^2)$ Then apply the formula:

$$\sigma = \sqrt{\frac{\sum fd^2}{\sum f}}$$

(b) Assumed mean method:

Here deviation are taken not from an actual mean but from an assumed mean. Also this method is used, if the given variable values are not in equal intervals.

Steps:

1. Assume any one of the items in the series as an assumed mean and denoted by A.
2. Find out the deviations from assumed mean, i.e, X-A and denote it by d.
3. Multiply these deviations by the respective frequencies and get the Σfd
4. Square the deviations (d^2).
5. Multiply the squared deviations $(d^{2)}$ by the respective frequencies (f) and get $\Sigma fd^{2.}$
6. Substitute the values in the following formula:

$$\sigma = \sqrt{\frac{\Sigma fd^2}{\Sigma f} - \left(\frac{\Sigma fd}{\Sigma f}\right)^2}$$

Where $d = X - A$, $N = \Sigma f$.

Example 11:

Calculate Standard deviation from the following data.

X :	20	22	25	31	35	40	42	45
f :	5	12	15	20	25	14	10	6

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Solution:

Deviations from assumed mean

x	f	$d = x - A$ $(A = 31)$	d^2	fd	fd^2
20	5	-11	121	-55	605
22	12	-9	81	-108	972
25	15	-6	36	-90	540
31	20	0	0	0	0
35	25	4	16	100	400
40	14	9	81	126	1134
42	10	11	121	110	1210
45	6	14	196	84	1176
	N=107			$\Sigma fd=167$	Σfd^2 =6037

$$\sigma = \sqrt{\frac{\Sigma fd^2}{\Sigma f} - \left(\frac{\Sigma fd}{\Sigma f}\right)^2}$$

$$= \sqrt{\frac{6037}{107} - \left(\frac{167}{107}\right)^2}$$

$$= \sqrt{56.42 - 2.44}$$

$$= \sqrt{53.98} = 7.35$$

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7.6.4 Calculation of Standard Deviation –Continuous series:

In the continuous series the method of calculating standard deviation is almost the same as in a discrete series. But in a continuous series, mid-values of the class intervals are to be found out. The step- deviation method is widely used.

The formula is,

$$\sigma = \sqrt{\frac{\sum fd'^2}{N} - \left(\frac{\sum fd'}{N}\right)^2} \times C$$

$$d = \frac{m - A}{C} \quad , \text{C- Class interval.}$$

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Steps:

1. Find out the mid-value of each class.
2. Assume the center value as an assumed mean and denote it by A
3. Find out d $= \dfrac{m - A}{C}$
4. Multiply the deviations d by the respective frequencies and get Σfd
5. Square the deviations and get d^2
6. Multiply the squared deviations (d^2) by the respective frequencies and get Σfd^2
7. Substituting the values in the following formula to get the standard deviation

$$\sigma = \sqrt{\frac{\Sigma fd'^2}{N} - \left(\frac{\Sigma fd'}{N}\right)^2} \times C$$

Example 13:

The daily temperature recorded in a city in Russia in a year is given below.

Temperature C^0	No. of days
-40 to -30	10
-30 to -20	18
-20 to -10	30
-10 to 0	42
0 to 10	65
10 to 20	180
20 to 30	20
	365

Calculate Standard Deviation.

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Solution:

Temperature	Mid value (m)	No. of days f	$d = \dfrac{m-(-5^n)}{10^n}$	fd	fd ^{2}
-40 to -30	-35	10	-3	-30	90
-30 to -20	-25	18	-2	-36	72
-20 to -10	-15	30	-1	-30	30
-10 to - 0	-5	42	0	0	0
0 to 10	5	65	1	65	65
10 to 20	15	180	2	360	720
20 to 30	25	20	3	60	180
		N=365		$\sum$fd = 389	$\sum$fd ^{2} =1157

$$\sigma = \sqrt{\frac{\sum fd'^2}{N} - \left(\frac{\sum fd'}{N}\right)^2} \times C$$

$$= \sqrt{\frac{1157}{365} - \left(\frac{389}{365}\right)^2} \times 10$$

$$= \sqrt{3.1699 - 1.1358} \times 10$$

$$= \sqrt{2.0341} \times 10$$

$$= 1.4262 \times 10$$

$$= 14.26°c$$

7.6.6 Merits and Demerits of Standard Deviation:

Merits:

1. It is rigidly defined and its value is always definite and based on all the observations and the actual signs of deviations are used.
2. As it is based on arithmetic mean, it has all the merits of arithmetic mean.
3. It is the most important and widely used measure of dispersion.
4. It is possible for further algebraic treatment.
5. It is less affected by the fluctuations of sampling and hence stable.
6. It is the basis for measuring the coefficient of correlation and sampling.

Demerits:

1. It is not easy to understand and it is difficult to calculate.
2. It gives more weight to extreme values because the values are squared up.
3. As it is an absolute measure of variability, it cannot be used for the purpose of comparison.

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7.6.7 Coefficient of Variation :

The Standard deviation is an absolute measure of dispersion. It is expressed in terms of units in which the original figures are collected and stated. The standard deviation of heights of students cannot be compared with the standard deviation of weights of students, as both are expressed in different units, i.e heights in centimeter and weights in kilograms. Therefore the standard deviation must be converted into a relative measure of dispersion for the purpose of comparison. The relative measure is known as the coefficient of variation.

The coefficient of variation is obtained by dividing the standard deviation by the mean and multiply it by 100. symbolically,

$$\text{Coefficient of variation (C.V)} = \frac{\sigma}{\bar{X}} \times 100$$

If we want to compare the variability of two or more series, we can use C.V. The series or groups of data for which the C.V. is greater indicate that the group is more variable, less stable, less uniform, less consistent or less homogeneous. If the C.V. is less, it indicates that the group is less variable, more stable, more uniform, more consistent or more homogeneous.

Example 15:

In two factories A and B located in the same industrial area, the average weekly wages (in rupees) and the standard deviations are as follows:

Factory	Average	Standard Deviation	No. of workers
A	34.5	5	476
B	28.5	4.5	524

1. Which factory A or B pays out a larger amount as weekly wages?
2. Which factory A or B has greater variability in individual wages?

Solution:

Given $N_1 = 476$, $\overline{X}_1 = 34.5$, $\sigma_1 = 5$

$$N_2 = 524, \ \overline{X}_2 = 28.5, \ \sigma_{2} = 4.5$$

1. Total wages paid by factory A

$$= 34.5 \times 476$$
$$= Rs.16.422$$

Total wages paid by factory B

$$= 28.5 \times 524$$
$$= Rs.14,934.$$

Therefore factory A pays out larger amount as weekly wages.

2. C.V. of distribution of weekly wages of factory A and B are

$$C.V.(A) = \frac{\sigma_1}{\overline{X}_1} \times 100$$

$$= \frac{5}{34.5} \times 100$$

$$= 14.49$$

$$C.V (B) = \frac{\sigma_2}{\overline{X}_2} \times 100$$

$$= \frac{4.5}{28.5} \times 100$$

$$= 15.79$$

Factory B has greater variability in individual wages, since C.V. of factory B is greater than C.V of factory A

Example 16:

Prices of a particular commodity in five years in two cities are given below:

Price in city A	Price in city B
20	10
22	20
19	18
23	12
16	15

Which city has more stable prices?

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Solution:

Actual mean method

	City A			City B	
Prices (X)	Deviations from $\overline{X}$=20 dx	dx^2	Prices (Y)	Deviations from $\overline{Y}$ =15 dy	dy^2
20	0	0	10	-5	25
22	2	4	20	5	25
19	-1	1	18	3	9
23	3	9	12	-3	9
16	-4	16	15	0	0
Σx=100	Σdx=0	Σdx^2=30	Σy=75	Σdy=0	Σdy^2 =68

City A: $\overline{X} = \dfrac{\Sigma x}{n} = \dfrac{100}{5} = 20$

$$\sigma_x = \sqrt{\dfrac{\Sigma(x - \overline{x})^2}{n}} = \sqrt{\dfrac{\Sigma dx^2}{n}}$$

$$= \sqrt{\dfrac{30}{5}} = \sqrt{6} = 2.45$$

$$\text{C.V(x)} = \dfrac{\sigma_x}{\overline{x}} \times 100$$

$$= \dfrac{2.45}{20} \times 100$$

$$= 12.25\ \%$$

City B: $\overline{Y} = \dfrac{\Sigma y}{n} = \dfrac{75}{5} = 15$

$$\sigma_y = \sqrt{\dfrac{\Sigma(y - \overline{y})^2}{n}} = \sqrt{\dfrac{\Sigma dy^2}{n}}$$

$$= \sqrt{\dfrac{68}{5}} = \sqrt{13.6} = 3.69$$

$$\text{C.V.(y)} = \dfrac{\sigma_y}{\overline{y}} \times 100$$

$$= \dfrac{3.69}{15} \times 100$$

$$= 24.6\ \%$$

City A had more stable prices than City B, because the coefficient of variation is less in City A.

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POSSIBLE QUESTIONS

PART – B (5 x 2 = 10 Marks)

1. Find the Arithmetic Mean for the following data.

    60   75   50   42   95   46

2. Find Median and Mode for the following data.

    13   16   17   15   18   14   19   15   12

3. Write the relation between Standard Deviation and Variance.

4. Calculate the Range and its Coefficient for the following data.

    X   :   12   14   16   18   20
    f   :   1   3   5   3   1

5. Define Quartile Deviation?

6. Find the Standard Deviation for the following data:

    240   260   290 245   255   288   272   263   277   251

PART – C (5 x 6 = 30 Marks)

1. Find median ,quartiles,9th decile and 56th percentile on the basis of the following data.

Marks:	20-29	30-39	40-49	50-59	60-69	70-79	80-89	90-99
No. of students:	7	11	24	32	9	14	2	1

2. Calculate the Standard Deviation and Coefficient of Variance (CV) for the following data.

X	0 – 10	10 - 20	20 - 30	30 – 40	40 – 50
f	2	5	9	3	1

3. Calculate the G.M and H.M are shown below.

value	0 - 10	10-20	20-30	30-40	40-50
frequency	8	12	20	6	4

4. Find the Mean deviations , Median of the following data.

Marks	20 - 29	30 - 39	40 - 49	50 - 59	60 - 69	70 - 79	80 – 89	90 - 99
No. of students	7	11	24	32	9	14	2	1

5. Calculate the Median for the following Continuous Frequency Distribution.

Wages (in Rs.) :	0 - 19	20 - 39	40 - 59	60 – 79	80 - 99
No. of Workers:	5	20	35	20	12

6. The income distribution of 102 persons is given.Calculate the quartile deviation and its coefficient.

Income (Rs.)	200	250	300	350	400	700
No.of persons	10	16	30	21	15	10

7. Calculate the Arithmetic Mean ,median and mode for the following data.

Height (cms):	160	161	162	163	164	165	166
No. of Persons :	27	36	43	78	65	48	28

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8. Calculate the Coefficient of Variance for the following data.

      77   73   75   70   72   76   75   72   74   76

9.Calculate the Median for the following.

Hourly Wages (in Rs.)	40 - 50	50 – 60	60 - 70	70 - 80	80 - 90	90 - 100
Number of Employees	10	20	15	30	15	10

10. The following data give the details about salaries (in thousands of rupees) of seven employees randomly selected from a Pharmaceutical Company.

Serial No.	1	2	3	4	5	6	7
Salary per Annum ('000)	89	57	104	73	26	121	81

   Calculate the Standard Deviation and Coefficient of variance of the given data.

11. i) Calculate the range and its coefficient for the following data.

      7   4   10   9   15   12   7   9   7

   ii) Calculate the standard deviation for the following data.

     X : 20   22   25   31   35   40   42   45

     f : 5   12   15   20   25   14   10   6

12. Calculate the Coefficient of Variation for the following data.

X	12	15	15	18	20
F	5	7	10	4	2

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Pollachi Main Road, Eachanari (Po),
Coimbatore –641 021

Subject: Business Mathematics &Statistics			Subject Code: 17CMU202	
Class : I B.Com			Semester : II	

UNIT -III

Uni-variate Analysis

PART A (20x1=20 Marks)

(Question Nos. 1 to 20 Online Examinations)

Possible Questions

Question	Choice 1	Choice 2	Choice 3	Choice 4	
A measure of central tendency helps to get a single representative value for a set of ………….. values.	equal	unequal	greater	smaller	
……………….. is the total of the values of the items divided by their number	Mean	Median	Mode	Range	
Arithmetic Mean is the ……………...of the values of the items divided by their number	sum	difference	equal	total	
Arithmetic Mean is the total of the values of the items …………… by their number	sum	difference	product	divided	
The ………….. of the deviations of the values from their arithemetic mean is zero.	sum	difference	product	divided	
The sum of the deviations of the values from their ……………….is zero.	arithmetic mean	arithmetic median	arithmetic mode	arithmetic range	
The sum of the deviations of the values from their arithemetic mean is …………....	zero	one	two	three	
……………... is the value of the middle most item when all the items are in order of magnitude.	Mean	Median	Mode	Range	

Median is the value of the ……………... most item when all the items are in order of magnitude.	initial	final	middle	higher
……….. is the value which has the greatest frequency density.	Mean	Median	Mode	Range
Mode is the value which has the ……………frequency density.	smallest	greatest	initial	final
……………… mean is the appropriate root of the product of the values of the items.	arithmetic	geometric	harmonic	standard
Geometric mean is the appropriate……………….of the product of the values of the items.	sum	difference	root	quotient
Geometric mean is the appropriate root of the ……………of the values of the items.	sum	difference	product	divided
……………... is the reciprocal of the mean of reciprocals of the values of the items	arithmetic	geometric	harmonic	standard
Harmonic mean is the ……………..of the mean of reciprocals of the values of the items	sum	difference	root	reciprocal
Harmonic mean is the reciprocal of the …………. of reciprocals of the values of the items	Mean	Median	Mode	Range
In symmetical distributions the relation is ………………	mean=median=mode	mean≠median=mode	mean=median≠mode	mean≠median≠mode
The relation between the means is …………	A.M< G.M< H.M	A.M = G.M =H.M	A.M > G.M > H.M	A.M≠ G.M≠ H.M
…………...are positional values.	quartile	mean	median	standard
………….divide the total frequency into ten equal parts and hence their name.	quartile	deciles	percentiles	mean

Deciles divide the ……………frequency into ten equal parts and hence their name.	sum	difference	equal	total
Deciles divide the total frequency into ……….. equal parts and hence their name.	zero	five	ten	twenty
…………. divide the total frequency into hundred equal parts and hence their name.	quartile	deciles	percentiles	mean
Percentiles divide the total frequency into ……….. parts and hence their name.	ten	twenty	fifty	hundred
…………..measures give pure numbers which are free form the units of measurements of data.	Relative	absolute	possibility	finite
Relative measures give …………...which are free form the units of measurements of data.	real numbers	pure numbers	complex numbers	imaginary numbers
Relative measures give pure numbers which are free form the …………. of measurements of data.	scale	value	units	range
…………………..and ………………measures are two kinds of measures of dispersion.	absolute and possibility	finite and infinite	non relative and relative	absolute and relative
……………... is the difference between the greatest and smallest of the values.	Median	Mean	Range	Mode
Range is the …………... between the greatest and smallest of the values.	sum	difference	product	quotient
Range is the difference between the ………………….. of the values.	smallest and greatest	greatest and smallest	finite and infinite	greatest and infinite
…………………. is used in statistical quality control.	Median	Mean	Range	Mode
Range is used in statistical ……………….. control.	units	constant	quality	value

……………deviation is half of the difference between first and third quartiles.	quartile	mean	median	standard
Quartile deviation is ……………..of the difference between first and third quartiles.	one fourth	half	one third	three fourth
Quartile deviation is half of the difference between ……………….quartiles.	first and third	first and two	two and third	third and fourth
There are …………….. kinds of mean deviations	one	two	three	four
……………………... the root mean square deviation of the values from their arithmetic mean	mean	median	mode	standard deviation
Standard deviation the………………..deviation of the values from their arithmetic mean	root mean square	root median square	root mode square	root range square
Standard deviation the root mean square deviation of the values from their arithmetic …………	mean	median	mode	standard deviation
………….... deviationof the values from the arithmetic mean is known as variance.	Mean square	root mean square	range square	standard deviation
Mean square deviationof the values from the arithmetic mean is known as variance.	arithmetic range	arithmetic mode	arithmetic median	arithmetic mean
Mean square deviationof the values from the arithmetic mean is known as ………………	mean	median	variance	standard deviation
………………….. is the positive square root of variance.	mean	median	variance	standard deviation
Standarad deviation is the positive …………...of variance.	square root	cubic root	fourth root	fifth root
Standarad deviation is the positive square root of ………..	mean	median	variance	standard deviation

The formula for range is ………..	L-S	L+S	L*S	L/S	
Answer					
unequal					
Mean					
total					
divided					
sum					
arithmetic mean					
zero					
Median					
middle					
Mode					
greatest					
geometric					
root					
product					
harmonic					
reciprocal					
Mean					
mean=median=mode					
A.M > G.M > H.M					
quartile					
deciles					
total					
ten					
percentiles					
hundred					
Relative					
pure numbers					
units					
absolute and relative					

Range					
difference					
greatest and smallest					
Range					
quality					
quartile					
half					
first and third					
three					
standard deviation					
root mean square					
mean					
Mean square					
arithmetic mean					
variance					
standard deviation					
square root					
variance					
L-S					

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UNIT – IV

SYLLABUS

Bi-variate Analysis

Simple Linear Correlation Analysis: Meaning, and measurement. Karl Pearson's co-efficient and Spearman's rank correlation Simple Linear Regression Analysis: Regression equations and estimation. Relationship between correlation and regression coefficients

CORRELATION

Introduction:

The term correlation is used by a common man without knowing that he is making use of the term correlation. For example when parents advice their children to work hard so that they may get good marks, they are correlating good marks with hard work.

Thus Correlation refers to the relationship of two variables or more. (e-g) relation between height of father and son, yield and rainfall, wage and price index, share and debentures etc.

Definitions:

1. Correlation Analysis attempts to determine the degree of relationship between variables- Ya-Kun-Chou.
2. Correlation is an analysis of the covariation between two or more variables.- A.M.Tuttle.

Correlation expresses the inter-dependence of two sets of variables upon each other. One variable may be called as (subject)

independent and the other relative variable (dependent). Relative variable is measured in terms of subject.

Uses of correlation:

1. It is used in physical and social sciences.
2. It is useful for economists to study the relationship between variables like price, quantity etc. Businessmen estimates costs, sales, price etc. using correlation.
3. It is helpful in measuring the degree of relationship between the variables like income and expenditure, price and supply, supply and demand etc.
4. Sampling error can be calculated.
5. It is the basis for the concept of regression.

Scatter Diagram:

It is the simplest method of studying the relationship between two variables diagrammatically. One variable is represented along the horizontal axis and the second variable along the vertical axis. For each pair of observations of two variables, we put a dot in the plane. There are as many dots in the plane as the number of paired observations of two variables. The direction of dots shows the scatter or concentration of various points. This will show the type of correlation.

1. If all the plotted points form a straight line from lower left hand corner to the upper right hand corner then there is

   Perfect positive correlation. We denote this as $r = +1$

Perfect positive
Correlation
$r = +1$

Y

Perfect Negative
Correlation

Y

$(r = -1)$

O   X axis   O   X axis
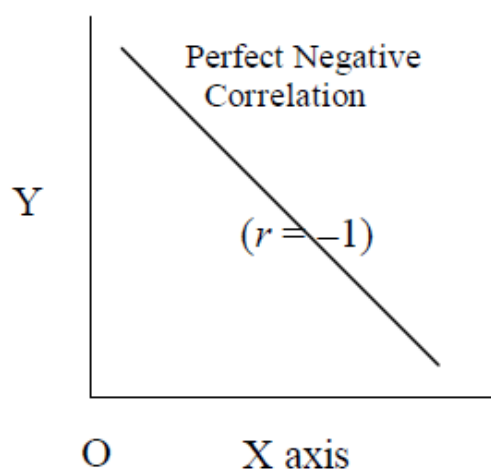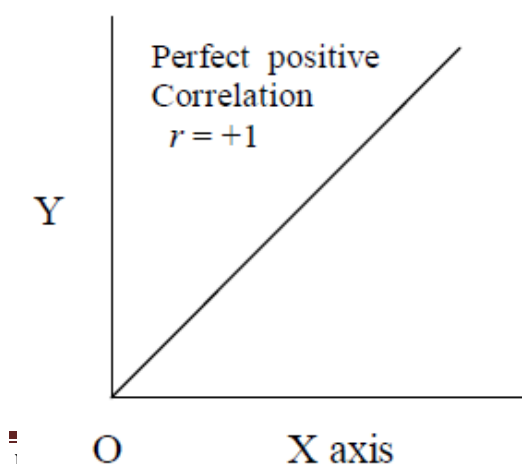
1. If all the plotted dots lie on a straight line falling from upper left hand corner to lower right hand corner, there is a perfect negative correlation between the two variables. In this case the coefficient of correlation takes the value $r = -1$.
2. If the plotted points in the plane form a band and they show a rising trend from the lower left hand corner to the upper right hand corner the two variables are highly positively correlated.

Highly Positive   Highly Negative

Y   Y

O   X axis   O   X axis
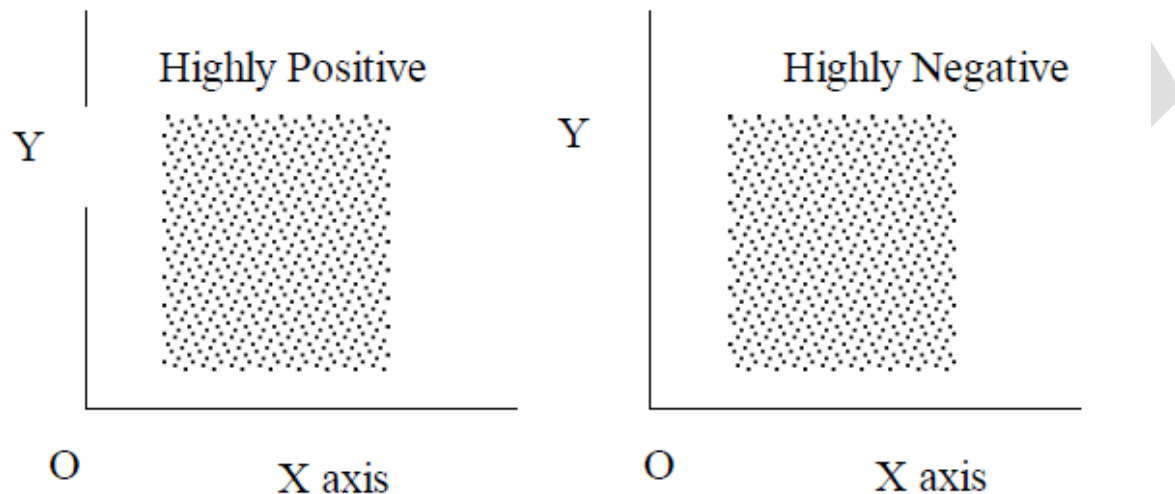
1. If the points fall in a narrow band from the upper left hand corner to the lower right hand corner, there will be a high degree of negative correlation.
2. If the plotted points in the plane are spread all over the diagram there is no correlation between the two variables.

No correlation

$(r = 0)$

Y

O
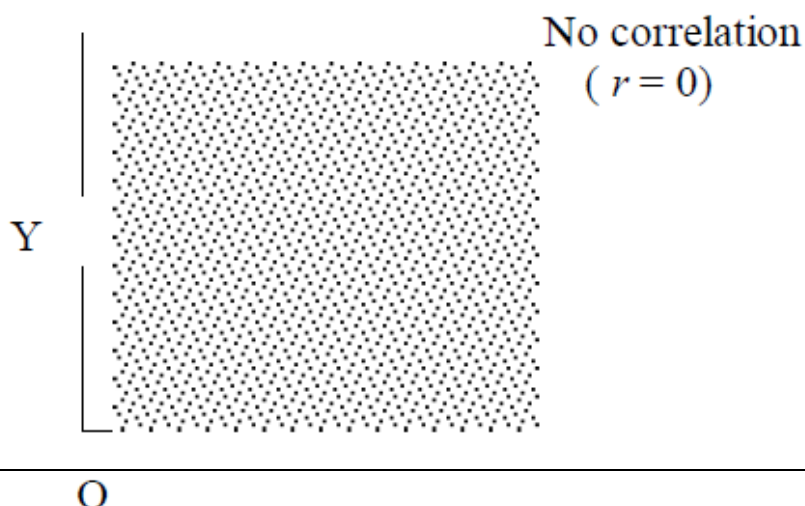
Merits:

1. It is a simplest and attractive method of finding the nature of correlation between the two variables.
2. It is a non-mathematical method of studying correlation. It is easy to understand.
3. It is not affected by extreme items.
4. It is the first step in finding out the relation between the two variables.
5. We can have a rough idea at a glance whether it is a positive correlation or negative correlation.

Demerits:

By this method we cannot get the exact degree or correlation between the two variables.

Types of Correlation:

Correlation is classified into various types. The most important ones are

i) Positive and negative.
ii) Linear and non-linear.
iii) Partial and total.
iv) Simple and Multiple.

Positive and Negative Correlation:

It depends upon the direction of change of the variables. If the two variables tend to move together in the same direction (ie) an increase in the value of one variable is accompanied by an increase in the value of the other, (or) a decrease in the value of one variable is accompanied by a decrease in the value of other, then the correlation is called positive or direct correlation. Price and supply, height and weight, yield and rainfall, are some examples of positive correlation.

If the two variables tend to move together in opposite directions so that increase (or) decrease in the value of one variable is accompanied by a decrease or increase in the value of the other variable, then the correlation is called negative (or) inverse correlation. Price and demand, yield of crop and price, are examples of negative correlation.

Linear and Non-linear correlation:

If the ratio of change between the two variables is a constant then there will be linear correlation between them.

Consider the following.

X	2	4	6	8	10	12
Y	3	6	9	12	15	18

Here the ratio of change between the two variables is the same. If we plot these points on a graph we get a straight line.

If the amount of change in one variable does not bear a constant ratio of the amount of change in the other. Then the relation is called Curvi-linear (or) non-linear correlation. The graph will be a curve.

Simple and Multiple correlation:

When we study only two variables, the relationship is simple correlation. For example, quantity of money and price level, demand and price. But in a multiple correlation we study more than two variables simultaneously. The relationship of price, demand and supply of a commodity are an example for multiple correlation.

Partial and total correlation:

The study of two variables excluding some other variable is called **Partial correlation**. For example, we study price and demand eliminating supply side. In total correlation all facts are taken into account.

Computation of correlation:

When there exists some relationship between two variables, we have to measure the degree of relationship. This measure is called the measure of correlation (or) correlation coefficient and it is denoted by 'r'.

Co-variation:

The covariation between the variables x and y is defined as

$$\text{Cov}(x,y) = \frac{\Sigma(x - \bar{x})(y - \bar{y})}{n}$$ where $\bar{x}, \bar{y}$ are respectively means of

x and y and 'n' is the number of pairs of observations.

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Karl pearson's coefficient of correlation:

Karl pearson, a great biometrician and statistician, suggested a mathematical method for measuring the magnitude of linear relationship between the two variables. It is most widely used method in practice and it is known as pearsonian coefficient of correlation. It is denoted by 'r'. The formula for calculating 'r' is

(i) $r = \dfrac{Cov(x, y)}{\sigma_x . \sigma_y}$ where σ_x, σ_y are S.D of x and y respectively.

(ii) $r = \dfrac{\Sigma xy}{n\ \sigma_x\ \sigma_y}$

(iii) $r = \dfrac{\Sigma XY}{\sqrt{\Sigma X^2 . \Sigma Y^2}}$, $\qquad X = x - \bar{x} , Y = y - \bar{y}$

when the deviations are taken from the actual mean we can apply any one of these methods. Simple formula is the third one.

The third formula is easy to calculate, and it is not necessary to calculate the standard deviations of x and y series respectively.

Steps:

1. Find the mean of the two series x and y.
2. Take deviations of the two series from x and y.
   $X = x - \bar{x}$, $Y = y - \bar{y}$
3. Square the deviations and get the total, of the respective squares of deviations of x and y and denote by ΣX^2, ΣY^2 respectively.
4. Multiply the deviations of x and y and get the total and Divide by n. This is covariance.
5. Substitute the values in the formula.

$$r = \dfrac{cov(x, y)}{\sigma x . \sigma y} = \dfrac{\Sigma(x - \bar{x})\ (y - \bar{y})/n}{\sqrt{\dfrac{\Sigma(x - \bar{x})^2}{n}}\ \sqrt{\dfrac{\Sigma(y - \bar{y})^2}{n}}}$$

The above formula is simplified as follows

$$r = \frac{\Sigma XY}{\sqrt{\Sigma X^2 . \Sigma Y^2}}, \quad X = x - \bar{x}, \quad Y = y - \bar{y}$$

Example 1:

Find Karl Pearson's coefficient of correlation from the following data between height of father (x) and son (y).

X	64	65	66	67	68	69	70
Y	66	67	65	68	70	68	72

Comment on the result.

Solution:

x	Y	$X = x - \bar{x}$ $X = x - 67$	X^2	$Y = y - \bar{y}$ $Y = y - 68$	Y^2	XY
64	66	-3	9	-2	4	6
65	67	-2	4	-1	1	2
66	65	-1	1	-3	9	3
67	68	0	0	0	0	0
68	70	1	1	2	4	2
69	68	2	4	0	0	0
70	72	3	9	4	16	12
469	476	0	28	0	34	25

$$\bar{x} = \frac{469}{7} = 67 \; ; \; \bar{y} = \frac{476}{7} = 68$$

$$r = \frac{\Sigma XY}{\sqrt{\Sigma X^2 . \Sigma Y^2}} = \frac{25}{\sqrt{28 \times 34}} = \frac{25}{\sqrt{952}} = \frac{25}{30.85} = 0.81$$

Since r = + 0.81, the variables are highly positively correlated. (ie) Tall fathers have tall sons.

Working rule (i)

We can also find r with the following formula

We have $r = \dfrac{Cov(x, y)}{\sigma_x . \sigma_y}$

$$Cov(x,y) = \frac{\Sigma(x - \bar{x})(y - \bar{y})}{n} = \frac{\Sigma(xy + \bar{x}\bar{y} - \bar{y}x - \bar{x}y)}{n}$$

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$$= \frac{\Sigma xy}{n} - \frac{\bar{y}\Sigma x}{n} - \frac{\bar{x}\Sigma y}{n} + \frac{\Sigma \bar{x}\bar{y}}{n}$$

$$\text{Cov(x,y)} = \frac{\Sigma xy}{n} - \bar{y}\bar{x} - \bar{x}\bar{y} + \bar{x}\bar{y} = \frac{\Sigma xy}{n} - \bar{x}\bar{y}$$

$$\sigma^2 x^2 = \frac{\Sigma x^2}{n} - \bar{x}^2 , \quad \sigma^2 y^2 = \frac{\Sigma y^2}{n} - \bar{y}^2$$

Now $r = \dfrac{Cov(x, y)}{\sigma_x . \sigma_y}$

$$r = \frac{\dfrac{\Sigma xy}{n} - \bar{x}\bar{y}}{\sqrt{\left(\dfrac{\Sigma x^2}{n} - \bar{x}^2\right)} . \sqrt{\left(\dfrac{\Sigma y^2}{n} - \bar{y}^2\right)}}$$

$$r = \frac{n\Sigma xy - (\Sigma x)(\Sigma y)}{\sqrt{[n\Sigma x^2 - (\Sigma x)^2][n\Sigma y^2 - (\Sigma y)^2]}}$$

Note: In the above method we need not find mean or standard deviation of variables separately.

Example 2:

Calculate coefficient of correlation from the following data.

X	1	2	3	4	5	6	7	8	9
Y	9	8	10	12	11	13	14	16	15

x	y	x^2	y^2	xy
1	9	1	81	9
2	8	4	64	16
3	10	9	100	30
4	12	16	144	48
5	11	25	121	55
6	13	36	169	78
7	14	49	196	98
8	16	64	256	128
9	15	81	225	135
45	108	285	1356	597

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$$r = \frac{n\Sigma xy - (\Sigma x)(\Sigma y)}{\sqrt{[n\Sigma x^2 - (\Sigma x)^2][n\Sigma y^2 - (\Sigma y)^2]}}$$

$$r = \frac{9 \times 597 - 45 \times 108}{\sqrt{(9 \times 285 - (45)^2).(9 \times 1356 - (108)^2)}}$$

$$r = \frac{5373 - 4860}{\sqrt{(2565 - 2025)(12204 - 11664)}}$$

$$= \frac{513}{\sqrt{540 \times 540}} = \frac{513}{540} = 0.95$$

Working rule (ii) (shortcut method)

We have $r = \dfrac{Cov(x, y)}{\sigma_x . \sigma_y}$

where $Cov(x,y) = \dfrac{\Sigma(x - \bar{x})(y - \bar{y})}{n}$

Take the deviation from x as x – A and the deviation from y as
y – B

$$Cov(x,y) = \frac{\Sigma[(x-A)-(\bar{x}-A)][(y-B)-(\bar{y}-B)]}{n}$$

$$= \frac{1}{n}\Sigma[(x-A)(y-B) - (x-A)(\bar{y}-B)$$
$$- (\bar{x}-A)(y-B) + (\bar{x}-A)(\bar{y}-B)]$$

$$= \frac{1}{n}\Sigma[(x-A)(y-B) - (\bar{y}-B)\frac{\Sigma(x-A)}{n}$$

$$- (\bar{x}-A)\frac{\Sigma(y-B)}{n} + \frac{\Sigma(\bar{x}-A)(\bar{y}-B)}{n}$$

$$= \frac{\Sigma(x-A)(y-B)}{n} - (\bar{y}-B)(\bar{x}-\frac{nA}{n})$$

$$- (\bar{x}-A)(\bar{y}-\frac{nB}{n}) + (\bar{x}-A)(\bar{y}-B)$$

$$= \frac{\frac{\Sigma(x-A)(y-B)}{n} - (\overline{y}-B)(\overline{x}-A)}{- \cancel{(\overline{x}-A)(\overline{y}-B)} + \cancel{(\overline{x}-A)(\overline{y}-B)}}$$

$$= \frac{\Sigma(x-A)(y-B)}{n} - (\overline{x}-A)(\overline{y}-B)$$

Let $x - A = u$; $y - B = v$; $\overline{x}-A = \overline{u}$; $\overline{y}-B = \overline{v}$

$$\therefore \text{Cov }(x,y) = \frac{\Sigma uv}{n} - \overline{u}\,\overline{v}$$

$$\sigma\sigma_x^2 = \frac{\Sigma u^2}{n} - \overline{u}^2 = \sigma u^2$$

$$\sigma\sigma_y^2 = \frac{\Sigma v^2}{n} - \overline{v}^2 = \sigma v^2$$

$$\therefore r = \frac{n\Sigma uv - (\Sigma u)(\Sigma v)}{\sqrt{\left[n\Sigma u^2 - (\Sigma u)^2\right].\left[(n\Sigma v^2) - (\Sigma v)^2\right]}}$$

Example 3:

Calculate Pearson's Coefficient of correlation.

X	45	55	56	58	60	65	68	70	75	80	85
Y	56	50	48	60	62	64	65	70	74	82	90

X	Y	u = x-A	v = y-B	u^2	v^2	uv
45	56	-20	-14	400	196	280
55	50	-10	-20	100	400	200
56	48	-9	-22	81	484	198
58	60	-7	-10	49	100	70
60	62	-5	-8	25	64	40
65	64	0	-6	0	36	0
68	65	3	-5	9	25	-15
70	70	5	0	25	0	0
75	74	10	4	100	16	40
80	82	15	12	225	144	180
85	90	20	20	400	400	400
		2	-49	1414	1865	1393

$$r = \frac{n\Sigma uv - (\Sigma u)\ (\Sigma v)}{\sqrt{[n\Sigma u^2 - (\Sigma u^2)]\ [n\Sigma v^2 - (\Sigma v)^2]}}$$

$$r = \frac{11 \times 1393 - 2 \times (-49)}{\sqrt{(1414 \times 11 - (2)^2) \times (1865 \times 11 - (-49)^2)}}$$

$$= \frac{15421}{\sqrt{15550 \times 18114}} = \frac{15421}{16783.11} = +0.92$$

Limitations:
1. Correlation coefficient assumes linear relationship regardless of the assumption is correct or not.
2. Extreme items of variables are being unduly operated on correlation coefficient.
3. Existence of correlation does not necessarily indicate cause-effect relation.

Interpretation:
The following rules helps in interpreting the value of 'r'.
1. When r = 1, there is perfect +ve relationship between the variables.
2. When r = -1, there is perfect -ve relationship between the variables.
3. When r = 0, there is no relationship between the variables.
4. If the correlation is +1 or -1, it signifies that there is a high degree of correlation. (+ve or -ve) between the two variables.
If r is near to zero (ie) 0.1,-0.1, (or) 0.2 there is less correlation.

Rank Correlation:

It is studied when no assumption about the parameters of the population is made. This method is based on ranks. It is useful to study the qualitative measure of attributes like honesty, colour, beauty, intelligence, character, morality etc.The individuals in the group can be arranged in order and there on, obtaining for each individual a number showing his/her rank in the group. This method was developed by Edward Spearman in 1904. It is defined

as $r = 1 - \dfrac{6\Sigma D^2}{n^3 - n}$ r = rank correlation coefficient.

Note: Some authors use the symbol ρ for rank correlation.
ΣD^2 = sum of squares of differences between the pairs of ranks.
n = number of pairs of observations.

The value of r lies between -1 and $+1$. If r = +1, there is complete agreement in order of ranks and the direction of ranks is also same. If r = -1, then there is complete disagreement in order of ranks and they are in opposite directions.

Computation for tied observations: There may be two or more items having equal values. In such case the same rank is to be given. The ranking is said to be tied. In such circumstances an average rank is to be given to each individual item. For example if the value so is repeated twice at the 5th rank, the common rank to

be assigned to each item is $\dfrac{5+6}{2} = 5.5$ which is the average of 5

and 6 given as 5.5, appeared twice.

If the ranks are tied, it is required to apply a correction

factor which is $\dfrac{1}{12}$ (m^3-m). A slightly different formula is used

when there is more than one item having the same value.

The formula is

$r = 1 - \dfrac{6[\Sigma D^2 + \frac{1}{12}(m^3 - m) + \frac{1}{12}(m^3 - m) + ...]}{n^3 - n}$

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Where m is the number of items whose ranks are common and should be repeated as many times as there are tied observations.

Example 6:

In a marketing survey the price of tea and coffee in a town based on quality was found as shown below. Could you find any relation between and tea and coffee price.

Price of tea	88	90	95	70	60	75	50
Price of coffee	120	134	150	115	110	140	100

Price of tea	Rank	Price of coffee	Rank	D	D^2
88	3	120	4	1	1
90	2	134	3	1	1
95	1	150	1	0	0
70	5	115	5	0	0
60	6	110	6	0	0
75	4	140	2	2	4
50	7	100	7	0	0
					$\Sigma D^2 = 6$

$$r = 1 - \frac{6\Sigma D^2}{n^3 - n} = 1 - \frac{6 \times 6}{7^3 - 7}$$

$$= 1 - \frac{36}{336} = 1 - 0.1071$$

$$= 0.8929$$

The relation between price of tea and coffee is positive at 0.89. Based on quality the association between price of tea and price of coffee is highly positive.

Example 7:

In an evaluation of answer script the following marks are awarded by the examiners.

1st	88	95	70	960	50	80	75	85
2nd	84	90	88	55	48	85	82	72

Do you agree the evaluation by the two examiners is fair?

x	R1	y	R2	D	D^2
88	2	84	4	2	4
95	1	90	1	0	0
70	6	88	2	4	16
60	7	55	7	0	0
50	8	48	8	0	0
80	4	85	3	1	1
85	3	75	6	3	9
					30

$$r = 1 - \frac{6\Sigma D^2}{n^3 - n} = 1 - \frac{6 \times 30}{8^3 - 8}$$

$$= 1 - \frac{180}{504} = 1 - 0.357 = 0.643$$

r = 0.643 shows fair in awarding marks in the sense that uniformity has arisen in evaluating the answer scripts between the two examiners.

Example 8:

Rank Correlation for tied observations. Following are the marks obtained by 10 students in a class in two tests.

Students	A	B	C	D	E	F	G	H	I	J
Test 1	70	68	67	55	60	60	75	63	60	72
Test 2	65	65	80	60	68	58	75	63	60	70

Calculate the rank correlation coefficient between the marks of two tests.

Student	Test 1	R1	Test 2	R2	D	D^2
A	70	3	65	5.5	-2.5	6.25
B	68	4	65	5.5	-1.5	2.25
C	67	5	80	1.0	4.0	16.00
D	55	10	60	8.5	1.5	2.25
E	60	8	68	4.0	4.0	16.00
F	60	8	58	10.0	-2.0	4.00
G	75	1	75	2.0	-1.0	1.00
H	63	6	62	7.0	-1.0	1.00
I	60	8	60	8.5	0.5	0.25
J	72	2	70	3.0	-1.0	1.00
						50.00

60 is repeated 3 times in test 1.

60,65 is repeated twice in test 2.

$m = 3$; $m = 2$; $m = 2$

$$r = 1 - \frac{6\left[\Sigma D^2 + \frac{1}{12}(m^3 - m) + \frac{1}{12}(m^3 - m) + \frac{1}{12}(m^3 - m)\right]}{n^3 - n}$$

$$= 1 - \frac{6\left[50 + \frac{1}{12}(3^3 - 3) + \frac{1}{12}(2^3 - 2) + \frac{1}{12}(2^3 - 2)\right]}{10^3 - 10}$$

$$= 1 - \frac{6[50 + 2 + 0.5 + 0.5]}{990}$$

$$= 1 - \frac{6 \times 53}{990} = \frac{672}{990} = 0.68$$

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REGRESSION

9.1 Introduction:

After knowing the relationship between two variables we may be interested in estimating (predicting) the value of one variable given the value of another. The variable predicted on the basis of other variables is called the "dependent" or the 'explained' variable and the other the 'independent' or the 'predicting' variable. The prediction is based on average relationship derived statistically by regression analysis. The equation, linear or otherwise, is called the regression equation or the explaining equation.

For example, if we know that advertising and sales are correlated we may find out expected amount of sales for a given advertising expenditure or the required amount of expenditure for attaining a given amount of sales.

The relationship between two variables can be considered between, say, rainfall and agricultural production, price of an input and the overall cost of product, consumer expenditure and disposable income. Thus, regression analysis reveals average relationship between two variables and this makes possible estimation or prediction.

9.1.1 Definition:

Regression is the measure of the average relationship between two or more variables in terms of the original units of the data.

9.2 Types Of Regression:

The regression analysis can be classified into:
a)   Simple and Multiple
b)   Linear and Non –Linear
c)   Total and Partial

a) Simple and Multiple:

In case of simple relationship only two variables are considered, for example, the influence of advertising expenditure on sales turnover. In the case of multiple relationship, more than

two variables are involved. On this while one variable is a dependent variable the remaining variables are independent ones.

For example, the turnover (y) may depend on advertising expenditure (x) and the income of the people (z). Then the functional relationship can be expressed as $y = f(x,z)$.

b) Linear and Non-linear:

The linear relationships are based on straight-line trend, the equation of which has no-power higher than one. But, remember a linear relationship can be both simple and multiple. Normally a linear relationship is taken into account because besides its simplicity, it has a better predective value, a linear trend can be easily projected into the future. In the case of non-linear relationship curved trend lines are derived. The equations of these are parabolic.

c) Total and Partial:

In the case of total relationships all the important variables are considered. Normally, they take the form of a multiple relationships because most economic and business phenomena are affected by multiplicity of cases. In the case of partial relationship one or more variables are considered, but not all, thus excluding the influence of those not found relevant for a given purpose.

9.3   Linear Regression Equation:

If two variables have linear relationship then as the independent variable (X) changes, the dependent variable (Y) also changes. If the different values of X and Y are plotted, then the two straight lines of best fit can be made to pass through the plotted points. These two lines are known as regression lines. Again, these regression lines are based on two equations known as regression equations. These equations show best estimate of one variable for the known value of the other. The equations are linear.

Linear regression equation of Y on X is

$$Y = a + bX \quad ......(1)$$

And X on Y is

$$X = a + bY ......(2)$$

a, b are constants.

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From (1) We can estimate Y for known value of X.

      (2) We can estimate X for known value of Y.

9.3.1 Regression Lines:

For regression analysis of two variables there are two regression lines, namely Y on X and X on Y. The two regression lines show the average relationship between the two variables.

For perfect correlation, positive or negative i.e., $r = \pm 1$, the two lines coincide i.e., we will find only one straight line. If $r = 0$, i.e., both the variables are independent then the two lines will cut each other at right angle. In this case the two lines will be parallel to X and Y-axes.
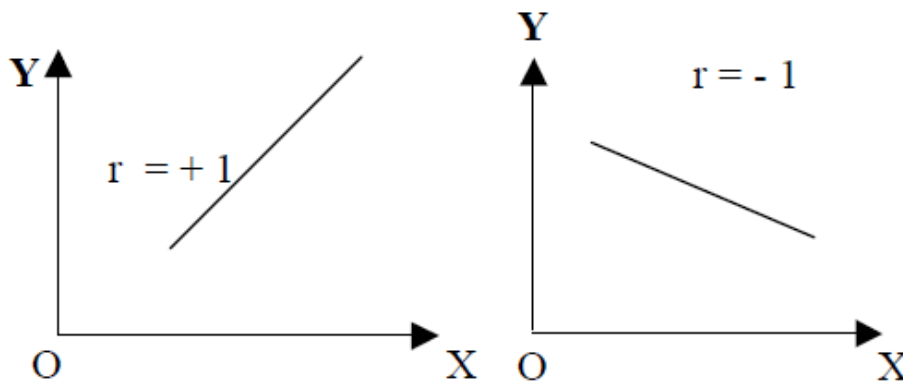
Lastly the two lines intersect at the point of means of X and Y. From this point of intersection, if a straight line is drawn on X-axis, it will touch at the mean value of x. Similarly, a perpendicular drawn from the point of intersection of two regression lines on Y-axis will touch the mean value of Y.
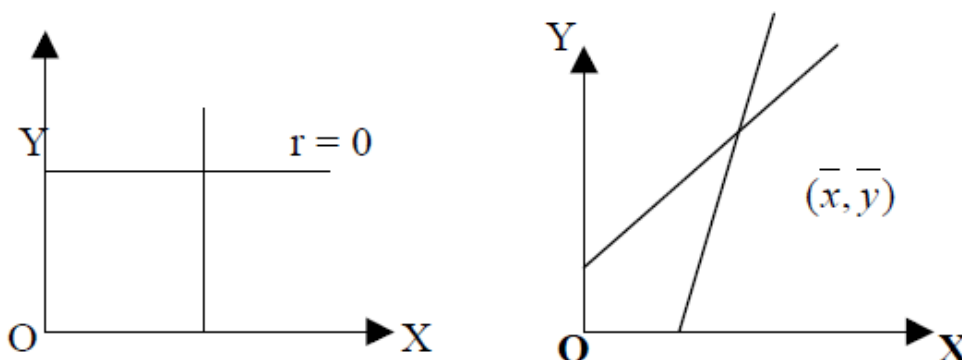
9.3.2 Principle of 'Least Squares':

Regression shows an average relationship between two variables, which is expressed by a line of regression drawn by the method of "least squares". This line of regression can be derived graphically or algebraically. Before we discuss the various methods let us understand the meaning of least squares.

A line fitted by the method of least squares is known as the line of best fit. The line adapts to the following rules:

(i)   The algebraic sum of deviation in the individual observations with reference to the regression line may be equal to zero. i.e.,

$\Sigma(X - Xc) = 0$ or $\Sigma (Y- Yc) = 0$

Where Xc and Yc are the values obtained by regression analysis.

(ii)   The sum of the squares of these deviations is less than the sum of squares of deviations from any other line. i.e.,

$\Sigma(Y - Yc)^2 < \Sigma (Y - Ai)^2$

Where Ai = corresponding values of any other straight line.

(iii)   The lines of regression (best fit) intersect at the mean values of the variables X and Y, i.e., intersecting point is $\overline{x}, \overline{y}$.

9.4 Methods of Regression Analysis:

The various methods can be represented in the form of chart given below:

Regression methods

Graphic
(through regression lines)

Algebraic
(through regression equations)

Scatter Diagram

Regression Equations
(through normal equations)

Regression Equations
(through regression coefficient)

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9.4.1 Graphic Method:
Scatter Diagram:

Under this method the points are plotted on a graph paper representing various parts of values of the concerned variables. These points give a picture of a scatter diagram with several points spread over. A regression line may be drawn in between these points either by free hand or by a scale rule in such a way that the squares of the vertical or the horizontal distances (as the case may be) between the points and the line of regression so drawn is the least. In other words, it should be drawn faithfully as the line of best fit leaving equal number of points on both sides in such a manner that the sum of the squares of the distances is the best.

9.4.2 Algebraic Methods:
(i)   Regression Equation.

The two regression equations
for X on Y; $X = a + bY$
And   for   Y on X; $Y = a + bX$
Where X, Y are variables, and a,b are constants whose values are to be determined

For the equation, $X = a + bY$
The normal equations are
$$\sum X = na + b \sum Y \text{ and}$$
$$\sum XY = a\sum Y + b\sum Y^2$$
For the equation, $Y = a + bX$, the normal equations are
$$\sum Y = na + b\sum X \text{ and}$$
$$\sum XY = a\sum X + b\sum X^2$$
From these normal equations the values of a and b can be determined.

Example 1:
Find the two regression equations from the following data:

X:	6	2	10	4	8
Y:	9	11	5	8	7

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Solution:

X	Y	X^2	Y^2	XY
6	9	36	81	54
2	11	4	121	22
10	5	100	25	50
4	8	16	64	32
8	7	64	49	56
30	40	220	340	214

Regression equation of Y on X is $Y = a + bX$ and the normal equations are

$$\Sigma Y = na + b\Sigma X$$
$$\Sigma XY = a\Sigma X + b\Sigma X^2$$

Substituting the values, we get

$$40 = 5a + 30b \ldots\ldots (1)$$
$$214 = 30a + 220b \ldots\ldots(2)$$

Multiplying (1) by 6

$$240 = 30a + 180b \ldots\ldots(3)$$

$(2) - (3)$ $-26 = 40b$

or $b = - \dfrac{26}{40} = -0.65$

Now, substituting the value of 'b' in equation (1)

$$40 = 5a - 19.5$$
$$5a = 59.5$$
$$a = \dfrac{59.5}{5} = 11.9$$

Hence, required regression line Y on X is $Y = 11.9 - 0.65\ X$.
Again, regression equation of X on Y is

$$X = a + bY \text{ and}$$

The normal equations are

$$\Sigma X = na + b\Sigma Y \text{ and}$$
$$\Sigma XY = a\Sigma Y + b\Sigma Y^2$$

Now, substituting the corresponding values from the above table, we get

$$30 = 5a + 40b \quad ....(3)$$
$$214 = 40a + 340b \quad ....(4)$$

Multiplying (3) by 8, we get

$$240 = 40a + 320\,b \quad ....(5)$$

$(4) - (5)$ gives

$$-26 = 20b$$

$$b = -\frac{26}{20} = -1.3$$

Substituting $b = -1.3$ in equation (3) gives

$$30 = 5a - 52$$
$$5a = 82$$
$$a = \frac{82}{5} = 16.4$$

Hence, Required regression line of X on Y is

$$X = 16.4 - 1.3Y$$

(ii) Regression Co-efficents:

The regression equation of Y on X is $\quad y_e = \bar{y} + r\dfrac{\sigma_y}{\sigma_x}(x - \bar{x})$

Here, the regression Co.efficient of Y on X is

$$b_1 = b_{yx} = r\frac{\sigma_y}{\sigma_x}$$

$$y_e = \bar{y} + b_1(x - \bar{x})$$

The regression equation of X on Y is

$$X_e = \bar{x} + r\frac{\sigma_x}{\sigma_y}(y - \bar{y})$$

Here, the regression Co-efficient of X on Y

$$b_2 = b_{xy} = r\frac{\sigma_x}{\sigma_y}$$

$$X_e = \bar{X} + b_2(y - \bar{y})$$

If the deviation are taken from respective means of x and y

$$b_1 = b_{yx} = \frac{\sum(X - \overline{X})(Y - \overline{Y})}{\sum(X - \overline{X})^2} = \frac{\sum xy}{\sum x^2} \quad \text{and}$$

$$b_2 = b_{xy} = \frac{\sum(X - \overline{X})(Y - \overline{Y})}{\sum(Y - \overline{Y})^2} = \frac{\sum xy}{\sum y^2}$$

where $x = X - \overline{X}, y = Y - \overline{Y}$

If the deviations are taken from any arbitrary values of x and y (short – cut method)

$$b_1 = b_{yx} = \frac{n\sum uv - \sum u \sum v}{n\sum u^2 - \left(\sum u\right)^2}$$

$$b_2 = b_{xy} = \frac{n\sum uv - \sum u \sum v}{n\sum v^2 - \left(\sum v\right)^2}$$

where u = x – A : v = Y-B
         A = any value in X
         B = any value in Y

9.5 Properties of Regression Co-efficient:

1. Both regression coefficients must have the same sign, ie either they will be positive or negative.
2. correlation coefficient is the geometric mean of the regression coefficients ie, $r = \pm\sqrt{b_1 b_2}$
3. The correlation coefficient will have the same sign as that of the regression coefficients.
4. If one regression coefficient is greater than unity, then other regression coefficient must be less than unity.
5. Regression coefficients are independent of origin but not of scale.
6. Arithmetic mean of b_1 and b_2 is equal to or greater than the coefficient of correlation. Symbolically $\dfrac{b_1 + b_2}{2} \geq r$

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7. If r=0, the variables are uncorrelated , the lines of regression become perpendicular to each other.

8. If r= ±1, the two lines of regression either coincide or parallel to each other

9. Angle between the two regression lines is $\theta = \tan^{-1}\left[\dfrac{m_1-m_2}{1+m_1 m_2}\right]$

   where m_1 and, m_2 are the slopes of the regression lines X on Y and Y on X respectively.

10. The angle between the regression lines indicates the degree of dependence between the variables.

Example 2:

If 2 regression coefficients are $b_1 = \dfrac{4}{5}$ and $b_2 = \dfrac{9}{20}$ .What would be the value of r?

Solution:

The correlation coefficient , $r = \pm\sqrt{b_1 b_2}$

$$= \sqrt{\dfrac{4}{5} \times \dfrac{9}{20}}$$

$$= \sqrt{\dfrac{36}{100}} = \dfrac{6}{10} = 0.6$$

Example 3:

Given $b_1 = \dfrac{15}{8}$ and $b_2 = \dfrac{3}{5}$, Find r

Solution:

$r = \pm\sqrt{b_1 b_2}$

$$= \sqrt{\dfrac{15}{8} \times \dfrac{3}{5}}$$

$$= \sqrt{\dfrac{9}{8}} \quad = 1.06$$

It is not possible since r, cannot be greater than one. So the given values are wrong

Example 4:

Compute the two regression equations from the following data.

X	1	2	3	4	5
Y	2	3	5	4	6

If $x = 2.5$, what will be the value of y?

Solution:

X	Y	$x = X - \overline{X}$	$y = Y - \overline{Y}$	x^2	y^2	xy
1	2	-2	-2	4	4	4
2	3	-1	-1	1	1	-1
3	5	0	1	0	1	0
4	4	1	0	1	0	0
5	6	2	2	4	4	4
15	20	20		10	10	9

$$\overline{X} = \frac{\Sigma X}{n} = \frac{15}{5} = 3$$

$$\overline{Y} = \frac{\Sigma Y}{n} = \frac{20}{5} = 4$$

Regression Co efficient of Y on X

$$b_{yx} = \frac{\Sigma xy}{\Sigma x^2} = \frac{9}{10} = 0.9$$

Hence regression equation of Y on X is

$$Y = \overline{Y} + b_{yx}(X - \overline{X})$$

$$= 4 + 0.9 \ (X - 3)$$

$$= 4 + 0.9X - 2.7$$

$$= 1.3 + 0.9X$$

when X = 2.5

Y = 1.3 + 0.9 × 2.5

= 3.55

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Regression co efficient of X on Y

$$b_{xy} = \frac{\sum xy}{\sum y^2} = \frac{9}{10} = 0.9$$

So, regression equation of X on Y is

$$X = \overline{X} + b_{xy}(Y - \overline{Y})$$
$$= 3 + 0.9\,(Y - 4)$$
$$= 3 + 0.9Y - 3.6$$
$$= 0.9Y - 0.6$$

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Example 6:

In a correlation study, the following values are obtained

	X	Y
Mean	65	67
S.D	2.5	3.5

Co-efficient of correlation = 0.8
Find the two regression equations that are associated with the above values.

Solution:

Given,

$$\overline{X} = 65, \overline{Y} = 67, \sigma_x = 2.5, \sigma_y = 3.5, r = 0.8$$

The regression co-efficient of Y on X is

$$b_{yx} = b_1 = r \frac{\sigma_y}{\sigma_x}$$

$$= 0.8 \times \frac{3.5}{2.5} = 1.12$$

The regression coefficient of X on Y is

$$b_{xy} = b_2 = r \frac{\sigma_x}{\sigma_y}$$

$$= 0.8 \times \frac{2.5}{3.5} = 0.57$$

Hence, the regression equation of Y on X is

$$Y_e = \overline{Y} + b_1 (X - \overline{X})$$

$$= 67 + 1.12 \, (X\text{-}65)$$

$$= 67 + 1.12 \, X - 72.8$$

$$= 1.12X - 5.8$$

The regression equation of X on Y is

$$X_e = \overline{X} + b_2(Y - \overline{Y})$$
$$= 65 + 0.57\ (Y\text{-}67)$$
$$= 65 + 0.57Y - 38.19$$
$$= 26.81 + 0.57Y$$

9.7 Uses of Regression Analysis:

1. Regression analysis helps in establishing a functional relationship between two or more variables.
2. Since most of the problems of economic analysis are based on cause and effect relationships, the regression analysis is a highly valuable tool in economic and business research.
3. Regression analysis predicts the values of dependent variables from the values of independent variables.
4. We can calculate coefficient of correlation (r) and coefficient of determination (r^2) with the help of regression coefficients.
5. In statistical analysis of demand curves, supply curves, production function, cost function, consumption function etc., regression analysis is widely used.

9.8 Difference between Correlation and Regression:

S.No	Correlation	Regression
1.	Correlation is the relationship between two or more variables, which vary in sympathy with the other in the same or the opposite direction.	Regression means going back and it is a mathematical measure showing the average relationship between two variables
2.	Both the variables X and Y are random variables	Here X is a random variable and Y is a fixed variable. Sometimes both the variables may be random variables.
3.	It finds out the degree of relationship between two variables and not the cause and effect of the variables.	It indicates the causes and effect relationship between the variables and establishes functional relationship.

4.	It is used for testing and verifying the relation between two variables and gives limited information.	Besides verification it is used for the prediction of one value, in relationship to the other given value.
5.	The coefficient of correlation is a relative measure. The range of relationship lies between −1 and +1	Regression coefficient is an absolute figure. If we know the value of the independent variable, we can find the value of the dependent variable.
6.	There may be spurious correlation between two variables.	In regression there is no such spurious regression.

7.	It has limited application, because it is confined only to linear relationship between the variables.	It has wider application, as it studies linear and non-linear relationship between the variables.
8.	It is not very useful for further mathematical treatment.	It is widely used for further mathematical treatment.
9.	If the coefficient of correlation is positive, then the two variables are positively correlated and vice-versa.	The regression coefficient explains that the decrease in one variable is associated with the increase in the other variable.

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POSSIBLE QUESTIONS

PART – B (5 x 2 = 10 Marks)

1. Define Correlation.
2. Define Standard Error and Probable Error.
3. Give any two points on merits and Demerits of Spearman's Rank correlation and Regression
4. Distinguish between correlation and Regression
5. Mention the different type of correlation
6. write the formula for correlation and Regression equstions.
7. If $r = 0.78, \sigma_x = 2.5, \sigma_y = 3.5$ then find b_{xy}
8. write the formula for Rank correlation

PART – C (5 x 6 = 30 Marks)

1. Distinguish between correlation and Regression (minimum 8 Points)
2. Marks obtained by 8 students in Accountancy (X) and Statistics (Y) are given below. Compute Rank Correlation Coefficient.

X	25	20	28	22	40	60	20
Y	40	30	50	30	20	10	30

3. You are given the following data:

	X	Y
Arithmetic mean	36	85
Standard deviation	11	8

Correlation coefficient between X and Y = 0.66

     i)Find the two regression equations.

     ii) Find r.

4. Find Karl Pearson s coefficient of correlation from the following data .

X :	100	101	102	102	100	99	97	98	96	95
Y :	98	99	99	97	95	92	95	94	90	91

5. From the data given below find the two regression lines.

X:	10	12	13	12	16	15
Y:	40	38	43	45	37	43.

i) Estimate Y when X = 20.

ii) Estimate X when Y = 25.

6. Find the Karl Pearson's coefficient of correlation from the marks secured by 10 students in Accountancy and statistics.

   Marks in Accountancy (X): 45   70   65   30   90   40   50   75   85   60

   Marks in statistics   (Y): 35   90   70   40   95   40   60   80   80   50.

7. In a correlation study, the following values are obtained

	X	Y
Mean	65	67
S.D	2.5	3.5

   Coefficient of correlation = 0.8

   Find the two regression equations.

8. Find the Spearman's rank correlation coefficient for the following data.

X:	68	64	75	50	64	80	75	40	55	64
Y:	62	58	68	45	81	60	68	48	50	70

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9. Following are the rank obtained by 10 students in two subjects. Find the Spearman's rank correlation coefficient.

Statistics:	1	2	3	4	5	6	7	8	9	10
Maths:	2	4	1	5	3	9	7	10	6	8

10. Develop the Regression Equation that best fit the data given below using annual income as an independent variable and amount of life insurance as dependent variable.

Annual Income (Rs. in 000's)	62	78	41	53	85	34
Amount of Life Insurance (Rs. in 00's)	25	30	10	15	50	7

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Pollachi Main Road, Eachanari (Po),
Coimbatore –641 021

Subject: Business Mathematics &Statistics			Subject Code: 17CMU202	
Class : I B.Com			Semester : II	
UNIT -IV				
Bi-variate Analysis				
PART A (20x1=20 Marks)				
(Question Nos. 1 to 20 Online Examinations)				
Possible Questions				

Question	Choice 1	Choice 2	Choice 3	Choice 4	
If r = - 1, then the relationship between the given two variables is……….	Relationship between two values	Relationship between two variables	Average relationship between two	Low Positive	
If r = 0, then the relationship between the given two variables is……..	Perfectly positive	Perfectly negative	No correlation	Both positive and negative	
Coefficient of correlation value lies between ……………..	Perfectly positive	Perfectly negative	No correlation	0 and –1.	
While drawing a scatter diagram if all points appear to form a straight line getting Downward from left to right, then it is inferred that there is……..	Perfectly positive	Perfectly negative	No correlation	No correlation	
The range of the rank correlation coefficient is……….	1 and –1	0 and 1	0 and infinity	$-\infty$ to ∞	
If r =0, then the angle between two lines of regression is……..	Perfect positive correlation	Simple positive correlation	Perfect negative correlation	Thirty degree	
Regression coefficient is independent of……………	0 to 1	–1 to 1	0 to ∞	Neither origin nor scale.	

Prepared by: R. Praveen Kumar, Department of Mathematics, KAHE

If the correlation coefficient between two variables X and Y is negative, then the Regression coefficient of Y on X is…………..	Zero degree	Sixty degree	Ninety degree	Zero
If the correlation coefficient between two variables X and Y is positive, then the Regression coefficient of X on Y is……………	Origin	Scale	Both origin and scale	Zero
The regression line cut each other at the point of…………..	Positive	Negative	Not certain	the median of X on Y
If b_{xy} and b_{yx} represent regression coefficients and if $b_{yx} > 1$ then b_{xy} is…..	Positive	Negative	Not certain	Equal to zero
Rank correlation was discovered by………..	Average of X only	Average of Y only	Average of X and Y	Spearman
Formula for Rank correlation is ……..	Less than one	Greater than one	Equal to one	$1/(n(n^2-1))$
With $b_{xy}=0.5$, r = 0.8 and the variance of Y=16, the standard deviation of X=	R.A.Fisher	Sir Francis Galton	Karl Pearson	25.6
The coefficient of correlation r =………………	$1- (6\Sigma d^2/(n(n^2-1)))$	$1- (6\Sigma d^2/(n(n^2+1)))$	$1+ (6\Sigma d^2/(n(n^2+1)))$	$(b_{xy}.b_{yx})^{1/2}$
If two regression coefficients are positive then the coefficient of correlation must be	6.4	2.5	10	One
If two-regression coefficients are negative then the coefficient of correlation must be…………..	$(b_{xy}.b_{yx})^{1/4}$	$(b_{xy}.b_{yx})^{-1/2}$	$(b_{xy}.b_{yx})^{1/3}$	One
The regression equation of X on Y is ………………	Zero	Negative	Positive	Y= a + bX
While drawing a scatter diagram if all points appear to form a straight line getting downward from left to right, then it is inferred that there is--------	Positive	Negative	Zero	no correlation

	X = a + bY	X = a + bX	X= a - bY		
If r =1, the angle between two lines of regression is----------				Thirty degree	
Regression coefficient is independent of--------	Perfect positive correlation	simple positive correlation	Perfect negative correlation	Neither origin nor scale.	
There will be only one regression line in case of two variables if------------	Zero degree	Sixty degree	Ninety degree	r is either +1 or −1	
The regression line cut each other at the point of----------	Origin	Scale	Both origin and scale	The median of X on Y	
Maximum value of correlation is………	r =0	r = 2	r = -2	0	
Minimum value of correlation is…………….	Average of X only	Average of Y only	Average of X and Y	0	
Which is a method of measuring correlation?	2	1.5	1	Either graphic correlation or scatter diagrams	
If there exists any relation between the sets of variables, it is called………….	-1	1.5	1	Quartile	
Which of the following measurement scales is required for the valid calculation of Karl Pearson's correlation coefficient?	Graphic correlation	Scatter diagrams	Both Graphic correlation and scatter diagrams	Nomial	
Which of the following is the range of r ?	Regression	Skewness	Correlation	1 and 2	
When the two regression lines coincide, then r is…………..	Ordial	Interval	Ratio	2	
While drawing a scatter diagram if all points appear to form a straight line getting downward from left to right, then it is inferred that there is--------	0 and 1	-1 and 1	-1 and 0	no correlation	

If r =1, the angle between two lines of regression is----------	0	-1	1	Thirty degree	
Regression coefficient is independent of--------	Perfect positive correlation	simple positive correlation	Perfect negative correlation	Neither origin nor scale.	
There will be only one regression line in case of two variables if------------	Zero degree	Sixty degree	Ninety degree	r is either +1 or −1	
The regression line cut each other at the point of----------	Origin	Scale	Both origin and scale	The median of X on Y	
Maximum value of correlation is………	r =0	r = 2	r = -2	0	
Minimum value of correlation is…………….	Average of X only	Average of Y only	Average of X and Y	0	
Which is a method of measuring correlation?	2	1.5	1	Either graphic correlation or scatter diagrams	
If there exists any relation between the sets of variables, it is called………….	-1	1.5	1	Quartile	
Which of the following measurement scales is required for the valid calculation of Karl Pearson's correlation coefficient?	Graphic correlation	Scatter diagrams	Both Graphic correlation and scatter diagrams	Nomial	
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When the two regression lines coincide, then r is…………..	Ordial	Interval	Ratio	2	
While drawing a scatter diagram if all points appear to form a straight line getting downward from left to right, then it is inferred that there is--------	0 and 1	-1 and 1	-1 and 0	no correlation	

If r =1, the angle between two lines of regression is----------	0	-1	1	Thirty degree
Regression coefficient is independent of--------	Perfect positive correlation	simple positive correlation	Perfect negative correlation	Neither origin nor scale.
There will be only one regression line in case of two variables if------------	Zero degree	Sixty degree	Ninety degree	r is either +1 or −1
The regression line cut each other at the point of----------	Origin	Scale	Both origin and scale	The median of X on Y
Maximum value of correlation is………	r =0	r = 2	r = -2	0
Minimum value of correlation is…………….	Average of X only	Average of Y only	Average of X and Y	0
Which is a method of measuring correlation?	2	1.5	1	Either graphic correlation or scatter diagrams
If there exists any relation between the sets of variables, it is called………….	-1	1.5	1	Quartile
Which of the following measurement scales is required for the valid calculation of Karl Pearson's correlation coefficient?	Graphic correlation	Scatter diagrams	Both Graphic correlation and scatter diagrams	Nomial
Which of the following is the range of r ?	Regression	Skewness	Correlation	1 and 2
When the two regression lines coincide, then r is…………..	Ordial	Interval	Ratio	2
While drawing a scatter diagram if all points appear to form a straight line getting downward from left to right, then it is inferred that there is--------	0 and 1	-1 and 1	-1 and 0	no correlation

If r =1, the angle between two lines of regression is----------	0	-1	1	Thirty degree
Regression coefficient is independent of--------	Perfect positive correlation	simple positive correlation	Perfect negative correlation	Neither origin nor scale.
There will be only one regression line in case of two variables if------------	Zero degree	Sixty degree	Ninety degree	r is either +1 or −1
The regression line cut each other at the point of----------	Origin	Scale	Both origin and scale	The median of X on Y
Maximum value of correlation is………	r =0	r = 2	r = -2	0
Minimum value of correlation is…………….	Average of X only	Average of Y only	Average of X and Y	0
Which is a method of measuring correlation?	2	1.5	1	Either graphic correlation or scatter diagrams
If there exists any relation between the sets of variables, it is called………….	-1	1.5	1	Quartile
Which of the following measurement scales is required for the valid calculation of Karl Pearson's correlation coefficient?	Graphic correlation	Scatter diagrams	Both Graphic correlation and scatter diagrams	Nomial
Which of the following is the range of r ?	Regression	Skewness	Correlation	1 and 2
When the two regression lines coincide, then r is…………..	Ordial	Interval	Ratio	2
While drawing a scatter diagram if all points appear to form a straight line getting downward from left to right, then it is inferred that there is--------	0 and 1	-1 and 1	-1 and 0	no correlation

If r =1, the angle between two lines of regression is----------	0	-1	1	Thirty degree	
Regression coefficient is independent of--------	Perfect positive correlation	simple positive correlation	Perfect negative correlation	Neither origin nor scale.	
There will be only one regression line in case of two variables if------------	Zero degree	Sixty degree	Ninety degree	r is either +1 or −1	
The regression line cut each other at the point of----------	Origin	Scale	Both origin and scale	The median of X on Y	
Maximum value of correlation is………	r =0	r = 2	r = -2	0	
Minimum value of correlation is…………….	Average of X only	Average of Y only	Average of X and Y	0	
Which is a method of measuring correlation?	2	1.5	1	Either graphic correlation or scatter diagrams	
If there exists any relation between the sets of variables, it is called………….	-1	1.5	1	Quartile	
Which of the following measurement scales is required for the valid calculation of Karl Pearson's correlation coefficient?	Graphic correlation	Scatter diagrams	Both Graphic correlation and scatter diagrams	Nomial	
Which of the following is the range of r ?	Regression	Skewness	Correlation	1 and 2	
When the two regression lines coincide, then r is…………..	Ordial	Interval	Ratio	2	
Answer					
Perfectly negative					

No correlation					
1 and –1					
Perfect negative correlation					
–1 to 1					
Ninety degree					
Origin					
Negative					
Positive					
Average of X and Y					
Greater than one					
Spearman					
$1- (6\Sigma d^2 /(n(n^2-1)))$					
2.5					
$(b_{xy.} b_{yx})^{1/2}$					
Positive					
Negative					
$X = a + bY$					
Perfect negative correlation					
Zero degree					
Origin					
r is either +1 or –1					
Average of X and Y					
1					
-1					
Both Graphic correlation and scatter diagrams					
Correlation					
Interval					
-1 and 1					
1					
Perfect negative correlation					
Zero degree					
Origin					
r is either +1 or –1					
Average of X and Y					

1					
-1					
Both Graphic correlation and scatter diagrams					
Correlation					
Interval					
-1 and 1					
1					
Perfect negative correlation					
Zero degree					
Origin					
r is either +1 or –1					
Average of X and Y					
1					
-1					
Both Graphic correlation and scatter diagrams					
Correlation					
Interval					
-1 and 1					
1					
Perfect negative correlation					
Zero degree					
Origin					
r is either +1 or –1					
Average of X and Y					
1					
-1					
Both Graphic correlation and scatter diagrams					
Correlation					
Interval					
-1 and 1					
1					
Perfect negative correlation					
Zero degree					
Origin					

r is either +1 or –1					
Average of X and Y					
1					
-1					
Both Graphic correlation and scatter diagrams					
Correlation					
Interval					
-1 and 1					
1					

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UNIT – V

SYLLABUS

Time-based Data: Index Numbers and Time-Series Analysis
Meaning and uses of index numbers; Construction of index numbers: Aggregative and average of relatives – simple and weighted, Tests of adequacy of index numbers, Construction of consumer price indices. Components of time series; additive and multiplicative models; Trend analysis: Finding trend by moving average method and Fitting of linear trend line using principle of least squares

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Index Numbers

Introduction:

An index number is a statistical device for comparing the general level of magnitude of a group of related variables in two or more situation. If we want to compare the price level of 2000 with what it was in 1990, we shall have to consider a group of variables such as price of wheat, rice, vegetables, cloth, house rent etc., If the changes are in the same ratio and the same direction, we face no difficulty to find out the general price level. But practically, if we think changes in different variables are different and that too, upward or downward, then the price is quoted in different units i.e milk for litre, rice or wheat for kilogram, rent for square feet, etc

Uses of Index numbers

Index numbers are indispensable tools of economic and business analysis. They are particular useful in measuring relative changes. Their uses can be appreciated by the following points.

1. They measure the relative change.
2. They are of better comparison.

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3. They are good guides.
4. They are economic barometers.
5. They are the pulse of the economy.
6. They compare the wage adjuster.
7. They compare the standard of living.
8. They are a special type of averages.
9. They provide guidelines to policy.
10. To measure the purchasing power of money.

Notation: For any index number, two time periods are needed for comparison. These are called the Base period and the Current period. The period of the year which is used as a basis for comparison is called the base year and the other is the current year. The various notations used are as given below:

P_1 = Price of current year P_0 = Price of base year

q_1 = Quantity of current year q_0 = Quantity of base year

10.4 Problems in the construction of index numbers

No index number is an all purpose index number. Hence, there are many problems involved in the construction of index numbers, which are to be tackled by an economist or statistician. They are

1. Purpose of the index numbers
2. Selection of base period
3. Selection of items
4. Selection of source of data
5. Collection of data
6. Selection of average
7. System of weighting

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10.5 Method of construction of index numbers:

Index numbers may be constructed by various methods as shown below:
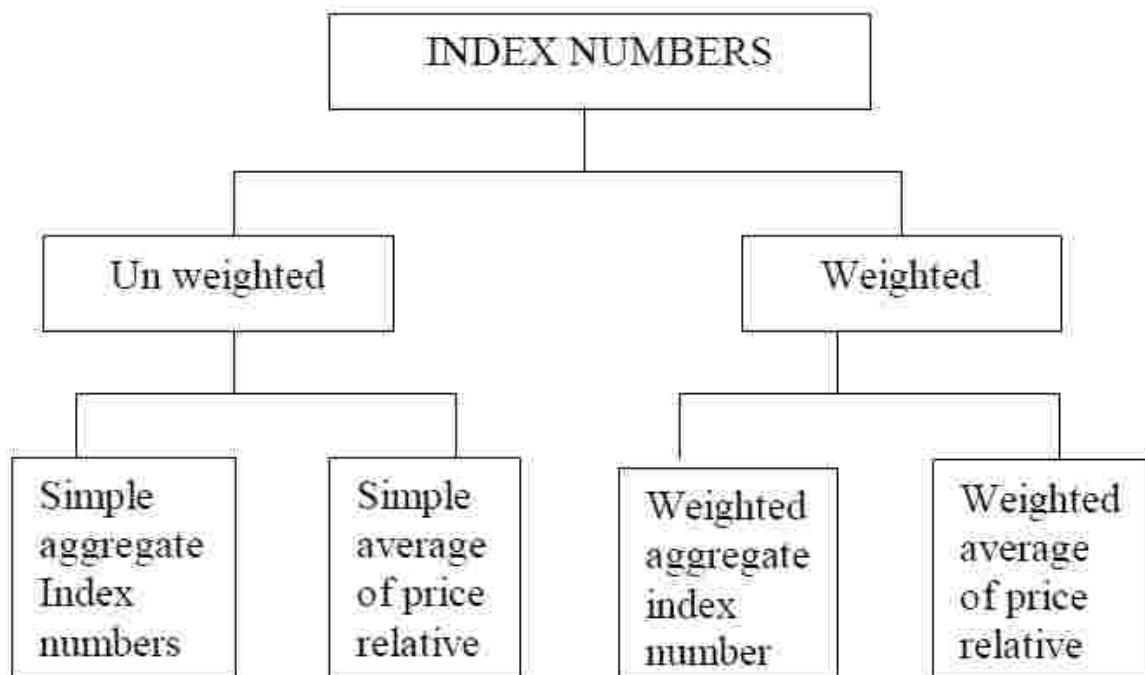
10.5.1 Simple Aggregate Index Number

This is the simplest method of construction of index numbers. The price of the different commodities of the current year are added and the sum is divided by the sum of the prices of those commodities by 100. Symbolically,

$$\text{Simple aggregate price index} = P_{01} = \frac{\Sigma p_1}{\Sigma p_0} \times 100$$

Where , Σp_1 = total prices for the current year

Σp_0 = Total prices for the base year

Example 1:

Calculate index numbers from the following data by simple aggregate method taking prices of 2000 as base.

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Commodity	Price per unit (in Rupees)	
	2000	2004
A	80	95
B	50	60
C	90	100
D	30	45

Solution:

Commodity	Price per unit (in Rupees)	
	2000 (P_0)	2004 (P_1)
A	80	95
B	50	60
C	90	100
D	30	45
Total	250	300

Simple aggregate Price index $= P_{01} = \dfrac{\Sigma P_1}{\Sigma P_0} \times 100$

$$= \dfrac{300}{250} \times 100 = 120$$

10.5.2 Simple Average Price Relative index:

In this method, first calculate the price relative for the various commodities and then average of these relative is obtained by using arithmetic mean and geometric mean. When arithmetic mean is used for average of price relative, the formula for computing the index is

Simple average of price relative by arithmetic mean

$$P_{01} = \frac{\Sigma\left(\dfrac{P1}{P0} \times 100\right)}{n}$$

P_1 = Prices of current year
P_0 = Prices of base year
n = Number of items or commodities
when geometric mean is used for average of price relative, the formula for obtaining the index is
Simple average of price relative by geometric Mean

$$P_{01} = \text{Antilog}\left(\frac{\Sigma\, \log\left(\dfrac{P_1}{P_0} \times 100\right)}{n}\right)$$

Example 2:
From the following data, construct an index for 1998 taking 1997 as base by the average of price relative using (a) arithmetic mean and (b) Geometric mean

Commodity	Price in 1997	Price in 1998
A	50	70
B	40	60
C	80	100
D	20	30

Solution:
(a) Price relative index number using arithmetic mean

Commodity	Price in 1997 (P₀)	Price in 1998 (P₁)	$\dfrac{P_1}{P_0} \times 100$
A	50	70	140
B	40	60	150
C	80	100	125
D	20	30	150
		Total	565

Simple average of price relative by arithmetic mean

$$P_{01} = \frac{\Sigma\left(\frac{P1}{P0} \times 100\right)}{n}$$

P_1 = Prices of current year
P_0 = Prices of base year
n = Number of items or commodities
when geometric mean is used for average of price relative, the formula for obtaining the index is
Simple average of price relative by geometric Mean

$$P_{01} = \text{Antilog}\left(\frac{\Sigma\; \log(\frac{P_1}{P_0} \times 100)}{n}\right)$$

Example 2:
From the following data, construct an index for 1998 taking 1997 as base by the average of price relative using (a) arithmetic mean and (b) Geometric mean

Commodity	Price in 1997	Price in 1998
A	50	70
B	40	60
C	80	100
D	20	30

Solution:
(a) Price relative index number using arithmetic mean

Commodity	Price in 1997 (P_0)	Price in 1998 (P_1)	$\frac{P_1}{P_0} \times 100$
A	50	70	140
B	40	60	150
C	80	100	125
D	20	30	150
		Total	565

Simple average of price relative by arithmetic mean

$$P_{01} = \frac{\sum \left(\frac{P_1}{P_0} \times 100 \right)}{n}$$

P_1 = Prices of current year
P_0 = Prices of base year
n = Number of items or commodities
when geometric mean is used for average of price relative, the formula for obtaining the index is
Simple average of price relative by geometric Mean

$$P_{01} = \text{Antilog} \left(\frac{\sum \log \left(\frac{P_1}{P_0} \times 100 \right)}{n} \right)$$

Example 2:
From the following data, construct an index for 1998 taking 1997 as base by the average of price relative using (a) arithmetic mean and (b) Geometric mean

Commodity	Price in 1997	Price in 1998
A	50	70
B	40	60
C	80	100
D	20	30

Solution:
(a) Price relative index number using arithmetic mean

Commodity	Price in 1997 (P_0)	Price in 1998 (P_1)	$\frac{P_1}{P_0} \times 100$
A	50	70	140
B	40	60	150
C	80	100	125
D	20	30	150
		Total	565

Simple average of price relative index = (P_{01}) = $\dfrac{\Sigma\left(\dfrac{P_1}{P_0}\times 100\right)}{4}$

$= \dfrac{565}{4} = 141.25$

(b) Price relative index number using Geometric Mean

Commodity	Price in 1997 (P_0)	Price in 1998 (P_1)	$\dfrac{P_1}{P_0}\times 100$	$\log\left(\dfrac{P_1}{P_0}\times 100\right)$
A	50	70	140	2.1461
B	40	60	150	2.1761
C	80	100	125	2.0969
D	20	30	150	2.1761
			Total	8.5952

Simple average of price Relative index

(P_{01}) = Antilog $\dfrac{\Sigma \log\left[\dfrac{p_1}{p_o} x100\right]}{n}$

$=$ Antilog $\dfrac{8.5952}{4}$

$=$ Antilog $[2.1488] = 140.9$

10.5.3 Weighted aggregate index numbers

    In order to attribute appropriate importance to each of the items used in an aggregate index number some reasonable weights must be used. There are various methods of assigning weights and consequently a large number of formulae for constructing index numbers have been devised of which some of the most important ones are

    1. Laspeyre's method
    2. Paasche's method
    3. Fisher's ideal Method
    4. Bowley's Method
    5. Marshall- Edgeworth method
    6. Kelly's Method

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1. Laspeyre's method:

The Laspeyres price index is a weighted aggregate price index, where the weights are determined by quantities in the based period and is given by

$$\text{Laspeyre's price index} = P_{01}{}^{L} = \frac{\Sigma p_1 q_0}{\Sigma p_0 q_0} \times 100$$

2. Paasche's method

The Paasche's price index is a weighted aggregate price index in which the weight are determined by the quantities in the current year. The formulae for constructing the index is

$$\text{Paasche's price index number} = P_{01}{}^{P} = \frac{\Sigma p_1 q_1}{\Sigma p_0 q_1} \times 100$$

Where

P_0 = Price for the base year P_1 = Price for the current year
q_0 = Quantity for the base year q_1 = Quantity for the current year

3. Fisher's ideal Method

Fisher's Price index number is the geometric mean of the Laspeyres and Paasche indices Symbolically

$$\text{Fisher's ideal index number} = P_{01}{}^{F} = \sqrt{L \times P}$$

$$= \sqrt{\frac{\Sigma p_1 q_0}{\Sigma p_0 q_0} \times \frac{\Sigma p_1 q_1}{\Sigma p_0 q_1}} \times 100$$

It is known as ideal index number because
     (a) It is based on the geometric mean
     (b) It is based on the current year as well as the base year
     (c) It conform certain tests of consistency
     (d) It is free from bias.

4. Bowley's Method:

Bowley's price index number is the arithmetic mean of Laspeyre's and Paasche's method. Symbolically

$$\text{Bowley's price index number} = P_{01}{}^{B} = \frac{L + P}{2}$$

$$= \frac{1}{2} \left[\frac{\Sigma p_1 q_0}{\Sigma p_0 q_0} + \frac{\Sigma p_1 q_1}{\Sigma p_0 q_1} \right] \times 100$$

5. Marshall- Edgeworth method

This method also both the current year as well as base year prices and quantities are considered. The formula for constructing the index is

$$\text{Marshall Edgeworth price index} = P_{01}{}^{ME} = \frac{\Sigma(q_0 + q_1)p_1}{\Sigma(q_0 + q_1)p_0} \times 100$$

$$= \frac{\Sigma p_1 q_0 + \Sigma p_1 q_1}{\Sigma p_0 q_0 + \Sigma p_0 q_1} \times 100$$

6. Kelly's Method

Kelly has suggested the following formula for constructing the index number

$$\text{Kelly's Price index number} = P_{01}{}^{k} = \frac{\Sigma p_1 q}{\Sigma p_0 q} \times 100$$

$$\text{Where} = q = \frac{q_0 + q_1}{2}$$

Here the average of the quantities of two years is used as weights

Example 3:

Construct price index number from the following data by applying
1. Laspeyere's Method
2. Paasche's Method
3. Fisher's ideal Method

Commodity	2000		2001	
	Price	Qty	Price	Qty
A	2	8	4	5
B	5	12	6	10
C	4	15	5	12
D	2	18	4	20

Solution:

Commodity	p_0	q_0	p_1	q_1	$p_0 q_0$	$p_0 q_1$	$p_1 q_0$	$p_1 q_1$
A	2	8	4	5	16	10	32	20
B	5	12	6	10	60	50	72	60
C	4	15	5	12	60	48	75	60
D	2	18	4	20	36	40	72	80
					172	148	251	220

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Laspeyre's price index $= P_{01}{}^{L} = \dfrac{\Sigma p_1 q_0}{\Sigma p_0 q_0} \times 100$

$$= \dfrac{251}{172} \times 100 \quad = 145.93$$

Paasche price index number $= P_{01}{}^{P} = \dfrac{\Sigma p_1 q_1}{\Sigma p_0 q_1} \times 100$

$$= \dfrac{220}{148} \times 100$$

$$= 148.7$$

Fisher's ideal index number $= \sqrt{L \times P}$

$$= \sqrt{(145.9) \times (148.7)}$$

$$= \sqrt{21695.33}$$

$$= 147.3$$

Or

Fisher's ideal index number $= \sqrt{\dfrac{\Sigma p_1 q_0}{\Sigma p_0 q_0} \times \dfrac{\Sigma p_1 q_1}{\Sigma p_0 q_1}} \times 100$

$$= \sqrt{\dfrac{251}{172} \times \dfrac{220}{148}} \times 100$$

$$= \sqrt{(1.459) \times (1.487)} \times 100$$

$$= \sqrt{2.170} \times 100$$

$$= 1.473 \times 100 = 147.3$$

Interpretation:

The results can be interpreted as follows:

If 100 rupees were used in the base year to buy the given commodities, we have to use Rs 145.90 in the current year to buy the same amount of the commodities as per the Laspeyre's formula. Other values give similar meaning .

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IV. Weighted Average of Price Relative index.

When the specific weights are given for each commodity, the weighted index number is calculated by the formula.

Weighted Average of Price Relative index = $\dfrac{\Sigma pw}{\Sigma w}$

Where w = the weight of the commodity

P = the price relative index

$= \dfrac{P_1}{P_0} \times 100$

When the base year value $P_0 q_0$ is taken as the weight i.e. $W = P_0 q_0$ then the formula is

Weighted Average of Price Relative index $= \dfrac{\Sigma\left(\dfrac{P_1}{P_0} \times 100\right) \times P_0 q_0}{\Sigma P_0 q_0}$

$= \dfrac{\Sigma P_1 q_0}{\Sigma P_0 q_0} \times 100$

This is nothing but Laspeyre's formula.

When the weights are taken as $w = p_0 q_1$, the formula is

Weighted Average of Price Relative index $= \dfrac{\Sigma\left(\dfrac{P_1}{P_0} \times 100\right) \times p_0 q_1}{\Sigma p_0 q_1}$

$= \dfrac{\Sigma p_1 q_1}{\Sigma p_0 q_1} \times 100$

This is nothing but Paasche's Formula.

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Example 6:

Compute the weighted index number for the following data.

Commodity	Price		Weight
	Current year	Base year	
A	5	4	60
B	3	2	50
C	2	1	30

Solution:

Commodity	P_1	P_0	W	$P = \dfrac{P_1}{P_0} \times 100$	PW
A	5	4	60	125	7500
B	3	2	50	150	7500
C	2	1	30	200	6000
			140		21000

Weighted Average of Price Relative index $= \dfrac{\Sigma pw}{\Sigma w}$

$$= \dfrac{21000}{140}$$

$$= 150$$

10.7 Tests of Consistency of index numbers:

Several formulae have been studied for the construction of index number. The question arises as to which formula is appropriate to a given problems. A number of tests been developed and the important among these are

1. Unit test
2. Time Reversal test
3. Factor Reversal test

1. **Unit test:**

   The unit test requires that the formula for constructing an index should be independent of the units in which prices and quantities are quoted. Except for the simple aggregate index (unweighted), all other formulae discussed in this chapter satisfy this test.

2. **Time Reversal test:**

   Time Reversal test is a test to determine whether a given method will work both ways in time, forward and backward. In the words of Fisher, "the formula for calculating the index number should be such that it gives the same ratio between one point of comparison and the other, no matter which of the two is taken as base". Symbolically, the following relation should be satisfied.

$$P_{01} \times P_{10} = 1$$

Where P_{01} is the index for time '1' as time '0' as base and P_{10} is the index for time '0' as time '1' as base. If the product is not unity, there is said to be a time bias is the method. Fisher's ideal index satisfies the time reversal test.

$$P_{01} = \sqrt{\frac{\Sigma p_1 q_0}{\Sigma p_0 q_0} \times \frac{\Sigma p_1 q_1}{\Sigma p_0 q_1}}$$

$$P_{10} = \sqrt{\frac{\Sigma p_0 q_1}{\Sigma p_1 q_1} \times \frac{\Sigma p_0 q_0}{\Sigma p_1 q_0}}$$

$$\text{Then } P_{01} \times P_{10} = \sqrt{\frac{\Sigma p_1 q_0}{\Sigma p_0 q_0} \times \frac{\Sigma p_1 q_1}{\Sigma p_0 q_1} \times \frac{\Sigma p_0 q_1}{\Sigma p_1 q_1} \times \frac{\Sigma p_0 q_0}{\Sigma p_1 q_0}}$$

$$= \sqrt{1} = 1$$

Therefore Fisher ideal index satisfies the time reversal test.

3. Factor Reversal test:

Another test suggested by Fisher is known s factor reversal test. It holds that the product of a price index and the quantity index should be equal to the corresponding value index. In the words of Fisher, "Just as each formula should permit the interchange of the two times without giving inconsistent results, so it ought to permit interchanging the prices and quantities without giving inconsistent result, ie, the two results multiplied together should give the true value ratio.

In other word, if P_{01} represent the changes in price in the current year and Q_{01} represent the changes in quantity in the current year, then

$$P_{01} \times Q_{01} = \frac{\Sigma p_1 q_1}{\Sigma p_0 q_0}$$

Thus based on this test, if the product is not equal to the value ratio, there is an error in one or both of the index number. The Factor reversal test is satisfied by the Fisher's ideal index.

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ie. $\qquad P_{01} = \sqrt{\dfrac{\Sigma p_1 q_0}{\Sigma p_0 q_0} \times \dfrac{\Sigma p_1 q_1}{\Sigma p_0 q_1}}$

$$Q_{01} = \sqrt{\dfrac{\Sigma q_1 p_0}{\Sigma q_0 p_0} \times \dfrac{\Sigma q_1 p_1}{\Sigma q_0 p_1}}$$

Then $P_{01} \times Q_{01} = \sqrt{\dfrac{\Sigma p_1 q_0}{\Sigma p_0 q_0} \times \dfrac{\Sigma p_1 q_1}{\Sigma p_0 q_1} \times \dfrac{\Sigma q_1 p_0}{\Sigma q_0 p_0} \times \dfrac{\Sigma q_1 p_1}{\Sigma q_0 p_1}}$

$$= \sqrt{\left(\dfrac{\Sigma p_1 q_1}{\Sigma p_0 q_0}\right)^2}$$

$$= \dfrac{\Sigma p_1 q_1}{\Sigma p_0 q_0}$$

Since $P_{01} \times Q_{01} = \dfrac{\Sigma p_1 q_1}{\Sigma p_0 q_0}$, the factor reversal test is satisfied by the Fisher's ideal index.

Example 8:

Construct Fisher's ideal index for the Following data. Test whether it satisfies time reversal test and factor reversal test.

Commodity	Base year		Current year	
	Quantity	Price	Quantity	Price
A	12	10	15	12
B	15	7	20	5
C	5	5	8	9

Solution:

Commodity	q_0	p_0	q_1	p_1	$p_0 q_0$	$p_0 q_1$	$p_1 q_0$	$p_1 q_1$
A	12	10	15	12	120	150	144	180
B	15	7	20	5	105	140	75	100
C	5	5	8	9	25	40	45	72
					250	330	264	352

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Fisher ideal index number $P_{01}{}^F = \sqrt{\dfrac{\Sigma p_1 q_0}{\Sigma p_0 q_0} \times \dfrac{\Sigma p_1 q_1}{\Sigma p_0 q_1}} \times 100$

$$= \sqrt{\frac{264}{250} \times \frac{352}{330}} \times 100$$

$$= \sqrt{(1.056) \times (1.067)} \times 100$$

$$= \sqrt{1.127} \times 100$$

$$= 1.062 \times 100 = 106.2$$

Time Reversal test:

Time Reversal test is satisfied when $P_{01} \times P_{10} = 1$

$$P_{01} = \sqrt{\frac{\Sigma p_1 q_0}{\Sigma p_0 q_0} \times \frac{\Sigma p_1 q_1}{\Sigma p_0 q_1}}$$

$$= \sqrt{\frac{264}{250} \times \frac{352}{330}}$$

$$P_{10} = \sqrt{\frac{\Sigma p_0 q_1}{\Sigma p_1 q_1} \times \frac{\Sigma p_0 q_0}{\Sigma p_1 q_0}}$$

$$= \sqrt{\frac{330}{352} \times \frac{250}{264}}$$

Now $P_{01} \times P_{10} = \sqrt{\dfrac{264}{250} \times \dfrac{352}{330} \times \dfrac{330}{352} \times \dfrac{250}{264}}$

$$= \sqrt{1}$$

$$= 1$$

Hence Fisher ideal index satisfy the time reversal test.

Factor Reversal test:

Factor Reversal test is satisfied when $P_{01} \times Q_{01} = \dfrac{\Sigma p_1 q_1}{\Sigma p_0 q_0}$

Now $P_{01} = \sqrt{\dfrac{\Sigma p_1 q_0}{\Sigma p_0 q_0} \times \dfrac{\Sigma p_1 q_1}{\Sigma p_0 q_1}}$

$$= \sqrt{\dfrac{264}{250} \times \dfrac{352}{330}}$$

$Q_{01} = \sqrt{\dfrac{\Sigma q_1 p_0}{\Sigma q_0 p_0} \times \dfrac{\Sigma q_1 p_1}{\Sigma q_0 p_1}}$

$$= \sqrt{\dfrac{330}{250} \times \dfrac{352}{264}}$$

Then $P_{01} \times Q_{01} = \sqrt{\dfrac{264}{250} \times \dfrac{352}{330} \times \dfrac{330}{250} \times \dfrac{352}{264}}$

$$= \sqrt{\left(\dfrac{352}{250}\right)^2}$$

$$= \dfrac{352}{250}$$

$$= \dfrac{\Sigma p_1 q_1}{\Sigma p_0 q_0}$$

Hence Fisher ideal index number satisfy the factor reversal test.

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10.8   Consumer Price Index

Consumer Price index is also called the cost of living index. It represent the average change over time in the prices paid by the ultimate consumer of a specified basket of goods and services. A change in the price level affects the costs of living of different classes of people differently. The general index number fails to reveal this. So there is the need to construct consumer price index. People consume different types of commodities. People's consumption habit is also different from man to man, place to place and class to class i.e richer class, middle class and poor class.

The scope of consumer price is necessary, to specify the population group covered. For example, working class, poor class, middle class, richer class, etc and the geographical areas must be covered as urban, rural, town, city etc.

Use of Consumer Price index

The consumer price indices are of great significance and is given below.

1. This is very useful in wage negotiations, wage contracts and dearness allowance adjustment in many countries.
2. At government level, the index numbers are used for wage policy, price policy, rent control, taxation and general economic policies.
3. Change in the purchasing power of money and real income can be measured.
4. Index numbers are also used for analysing market price for particular kinds of goods and services.

Method of Constructing Consumer price index:

There are two methods of constructing consumer price index. They are

1. Aggregate Expenditure method (or) Aggregate method.
2. Family Budget method (or) Method of Weighted Relative method.

1. Aggregate Expenditure method:

This method is based upon the Laspeyre's method. It is widely used. The quantities of commodities consumed by a particular group in the base year are the weight.

The formula is Consumer Price Index number $= \dfrac{\Sigma p_1 q_0}{\Sigma p_0 q_0} \times 100$

2. Family Budget method or Method of Weighted Relatives:

This method is estimated an aggregate expenditure of an average family on various items and it is weighted. The formula is

Consumer Price index number $= \dfrac{\Sigma pw}{\Sigma w}$

Where $P = \dfrac{p_1}{p_0} \times 100$ for each item. w = value weight (i.e) $p_0 q_0$

"Weighted average price relative method" which we have studied before and "Family Budget method" are the same for finding out consumer price index.

Example 9:

Construct the consumer price index number for 1996 on the basis of 1993 from the following data using Aggregate expenditure method.

Commodity	Quantity consumed	Price in 1993	Price in 1996
A	100	8	12
B	25	6	7
C	10	5	8
D	20	15	18

Solution:

Commodity	q_0	p_0	p_1	$p_0 q_0$	$p_1 q_0$
A	100	8	12	800	1200
B	25	6	7	150	175
C	10	5	8	50	80
D	20	15	18	300	360
			Total	1300	1815

Consumer price index by Aggregate expenditure method

$$= \frac{\Sigma p_1 q_0}{\Sigma p_0 q_0} \times 100$$

$$= \frac{1815}{1300} \times 100 = 139.6$$

Example 10:

Calculate consumer price index by using Family Budget method for year 1993 with 1990 as base year from the following data.

Items	Weights	Price in 1990 (Rs.)	Price in 1993 (Rs.)
Food	35	150	140
Rent	20	75	90
Clothing	10	25	30
Fuel and lighting	15	50	60
Miscellaneous	20	60	80

Solution:

Items	W	P_0	P_1	$P = \frac{P_1}{P_0} \times 100$	PW
Food	35	150	140	93.33	3266.55
Rent	20	75	90	120.00	2400.00
Clothing	10	25	30	120.00	1200.00
Fuel and lighting	15	50	60	120.00	1800.00
Miscellaneous	20	60	80	133.33	2666.60
	100				11333.15

Consumer price index by Family Budget method $= \dfrac{\Sigma pw}{\Sigma w}$

$$= \frac{11333.15}{100}$$

$$= 113.33$$

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Introduction:

Arrangement of statistical data in chronological order ie., in accordance with occurrence of time, is known as "Time Series". Such series have a unique important place in the field of Economic and Business statistics. An economist is interested in estimating the likely population in the coming year so that proper planning can be carried out with regard to food supply, job for the people etc. Similarly, a business man is interested in finding out his likely sales in the near future, so that the businessman could adjust his production accordingly and avoid the possibility of inadequate production to meet the demand. In this connection one usually deal with statistical data, which are collected, observed or recorded at successive intervals of time. Such data are generally referred to as ' time series'.

Definition:

According to Mooris Hamburg "A time series is a set of statistical observations arranged in chronological order"

Ya-Lun- chou defining the time series as "A time series may be defined as a collection of readings belonging to different time periods, of some economic variable or composite of variables. A time series is a set of observations of a variable usually at equal intervals of time. Here time may be yearly, monthly, weekly, daily or even hourly usually at equal intervals of time.

Hourly temperature reading, daily sales, monthly production are examples of time series. Number of factors affect the observations of time series continuously, some with equal intervals of time and others are erratic studying, interpreting analyzing the factors is called Analysis of Time Series.

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8.2 Components of Time series:

The components of a time series are the various elements which can be segregated from the observed data. The following are the broad classification of these components.

Components

Long Term   Short Term

Secular Trend   Cyclical   Seasonal   Irregular (or) Erratic

Regular
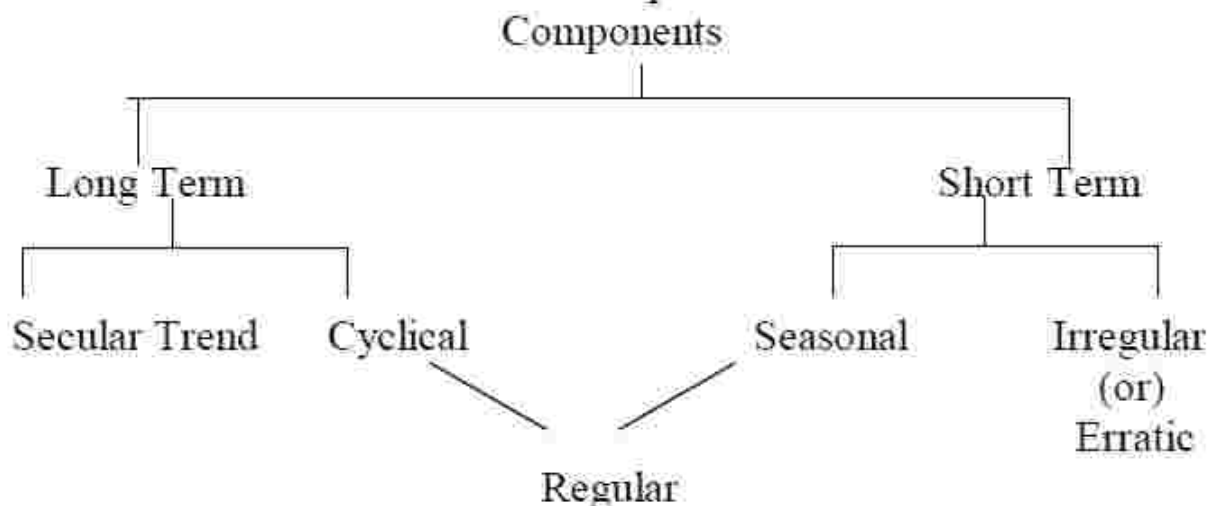
In time series analysis, it is assumed that there is a multiplicative relationship between these four components. Symbolically,

$$Y = T \times S \times C \times I$$

Where Y denotes the result of the four elements; T = Trend ; S = Seasonal component; C = Cyclical components; I = Irregular component

In the multiplicative model it is assumed that the four components are due to different causes but they are not necessarily independent and they can affect one another.

Another approach is to treat each observation of a time series as the sum of these four components. Symbolically

$$Y = T + S + C + I$$

The additive model assumes that all the components of the time series are independent of one another.

1) Secular Trend or Long - Term movement or simply Trend
2) Seasonal Variation
3) Cyclical Variations
4) Irregular or erratic or random movements(fluctuations)

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8.2.2 Methods of Measuring Trend:

Trend is measured by the following mathematical methods.

1. Graphical method
2. Method of Semi-averages
3. Method of moving averages
4. Method of Least Squares

Method of Moving Averages:

This method is very simple. It is based on Arithmetic mean. Theses means are calculated from overlapping groups of successive time series data. Each moving average is based on values covering a fixed time interval, called "period of moving average" and is shown against the center of the interval.

The method of 'odd period of moving average is as follows. (3 or 5) . The moving averages for three years is $\dfrac{a+b+c}{3}$, $\dfrac{b+c+d}{3}$, $\dfrac{c+d+e}{3}$ etc

The formula for five yearly moving average is $\dfrac{a+b+c+d+e}{5}$, $\dfrac{b+c+d+e+f}{5}$, $\dfrac{c+d+e+f+g}{5}$ etc.

Steps for calculating odd number of years.

1. Find the value of three years total, place the value against the second year.
2. Leave the first value and add the next three years value (ie 2nd, 3rd and 4th years value) and put it against 3rd year.
3. Continue this process until the last year's value taken.
4. Each total is divided by three and placed in the next column.

These are the trend values by the method of moving averages

Example 4 :

Calculate the three yearly average of the following data.

Year	1975	1976	1977	1978	1979	1980
Production in (tones)	50	36	43	45	39	38

Year	1981	1982	1983	1984
Production in (tones)	33	42	41	34

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Solution:

Year	Production (in tones)	3 years moving total	3 years moving average as Trend values
1975	50	-	-
1976	36	129	43.0
1977	43	124	41.3
1978	45	127	42.3
1979	39	122	40.7
1980	38	110	36.7
1981	33	113	37.7
1982	42	116	38.7
1983	41	117	39.0
1984	34	-	-

Even Period of Moving Averages:

When the moving period is even, the middle period of each set of values lies between the two time points. So we must center the moving averages.

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The steps are

1. Find the total for first 4 years and place it against the middle of the 2nd and 3rd year in the third column.
2. Leave the first year value, and find the total of next four-year and place it between the 3rd and 4th year.
3. Continue this process until the last value is taken.
4. Next, compute the total of the first two four year totals and place it against the 3rd year in the fourth column.
5. Leave the first four years total and find the total of the next two four years' totals and place it against the fourth year.
6. This process is continued till the last two four years' total is taken into account.
7. Divide this total by 8 (Since it is the total of 8 years) and put it in the fifth column.

These are the trend values.

Example 5 :

The production of Tea in India is given as follows. Calculate the Four-yearly moving averages

Year	1993	1994	1995	1996	1997	1998
Production (tones)	464	515	518	467	502	540

Year	1999	2000	2001	2002
Production (tones)	557	571	586	612

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Solution:

Year	Production (in tones)	4 years Moving total	Total of Two four years	Trend Values
1993	464		-	-
		-		
1994	515			
		1964		
1995	518		3966	495.8
		2002		
1996	467		4029	503.6
		2027		
1997	502		4093	511.6
		2066		
1998	540		4236	529.5
		2170		
1999	557		4424	553.0
		2254		
2000	571		4580	572.5
		2326		
2001	586			
		-		
2002	612			

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8.3 Method of Least Square:

This method is widely used. It plays an important role in finding the trend values of economic and business time series. It helps for forecasting and predicting the future values. The trend line by this method is called the line of best fit.

The equation of the trend line is $y = a + bx$, where the constants a and b are to be estimated so as to minimize the sum of the squares of the difference between the given values of y and the estimate values of y by using the equation. The constants can be obtained by solving two normal equations.

$$\Sigma y = na + b\Sigma x \qquad \text{.......... (1)}$$
$$\Sigma xy = a\Sigma x + b\Sigma x^2 \text{ ....(2)}$$

Here x represent time point and y are observed values. 'n' is the number of pair- values.

When odd number of years are given

Step 1: Writing given years in column 1 and the corresponding sales or production etc in column 2.

Step 2: Write in column 3 start with 0, 1, 2 .. against column 1 and denote it as X

Step 3: Take the middle value of X as A

Step 4: Find the deviations u = $X - A$ and write in column 4

Step 5: Find u^2 values and write in column 5.

Step 6: Column 6 gives the product uy

Now the normal equations become

$$\Sigma y = na + b\Sigma u \qquad (1) \qquad \text{where u = X-A}$$
$$\Sigma uy = a\Sigma u + b\Sigma u^2 \qquad (2)$$

Since $\Sigma u = 0$,   From equation (1)

$$a = \frac{\Sigma y}{n}$$

From equation (2)

$$\Sigma uy = b\Sigma u^2$$
$$\therefore b = \frac{\Sigma uy}{\Sigma u^2}$$

$\therefore$ The fitted straight line is

$$y = a + bu \ = a + b\,(X - A)$$

Example 6:

For the following data, find the trend values by using the method of Least squares

Year	1990	1991	1992	1993	1994
Production (in tones)	50	55	45	52	54

Estimate the production for the year 1996

Solution:

Year (x)	Production (y)	X= x -1990	u = X-A = X-2	u^2	uy	Trend values
1990	50	0	-2	4	-100	50.2
1991	55	1	-1	1	-55	50.7
1992	45	2 A	0	0	0	51.2
1993	52	3	1	1	52	51.7
1994	54	4	2	4	108	52.2
Total	256			10	5	

Where A is an assumed value
The equation of straight line is
$$Y = a + bX$$
$$= a + bu, \text{ where } u = X - 2$$
the normal equations are
$$\Sigma y = na + b\Sigma u \ldots\ldots(1)$$
$$\Sigma uy = a\Sigma u + b\Sigma u^2 \ldots(2)$$
since $\Sigma u = 0$ from(1) $\Sigma y = na$
$$a = \frac{\Sigma y}{n} = \frac{256}{5} = 51.2$$
From equation (2)
$$\Sigma uy = b\Sigma u^2$$
$$5 = 10b$$
$$b = \frac{5}{10} = 0.5$$

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The fitted straight line is

$$y = a + bu$$
$$y = 51.2 + 0.5 (X-2)$$
$$y = 51.2 + 0.5X - 1.0$$
$$y = 50.2 + 0.5X$$

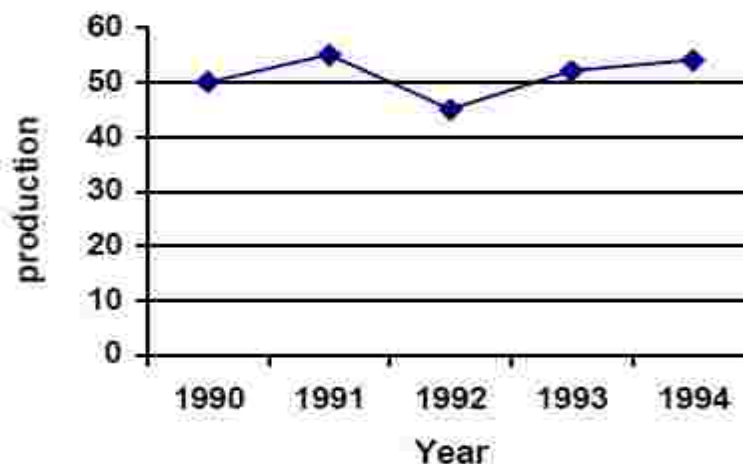Trend values are, 50.2, 50.7, 51.2, 51.7, 52.2

The estimate production in 1996 is put $X = x - 1990$

$$X = 1996 - 1990 = 6$$
$$Y = 50.2 + 0.5X = 50.2 + 0.5(6)$$
$$= 50.2 + 3.0 = 53.2 \text{ tonnes.}$$

When **even number of years** are given

Here we take the mean of middle two values of X as A.

Then $u = \dfrac{X - A}{1/2} = 2(X-A)$. The other steps are as given in the odd number of years.

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Example 7:

Fit a straight line trend by the method of least squares for the following data.

Year	1983	1984	1985	1986	1987	1988
Sales (Rs. in lakhs)	3	8	7	9	11	14

Also estimate the sales for the year 1991

Solution:

Year (x)	Sales (y)	X = x-1983	u =2X-5	u2	uy	Trend values
1983	3	0	-5	25	-15	3.97
1984	8	1	-3	9	-24	5.85
1985	7	2	-1	1	-7	7.73
1986	9	3	1	1	9	9.61
1987	11	4	3	9	33	11.49
1988	14	5	5	25	70	13.37
Total	52		0	70	66	

$$u = \frac{X - A}{1/2}$$

$$= 2\,(X - 2.5) = 2X - 5$$

The straight line equation is

$$y = a + bX = a + bu$$

The normal equations are

$$\Sigma y = na \quad \dots(1)$$

$$\Sigma uy = b\Sigma u^2 \quad \dots(2)$$

From (1) $52 = 6a$

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$$a = \frac{52}{6}$$

$$= 8.67$$

From (2) $66 = 70\ b$

$$b = \frac{66}{70}$$

$$= 0.94$$

The fitted straight line equation is

$$y = a + bu$$

$$y = 8.67 + 0.94(2X-5)$$

$$y = 8.67 + 1.88X - 4.7$$

$$y = 3.97 + 1.88X \text{-----------(3)}$$

The trend values are

Put $X = 0$, $y = 3.97$ $\qquad$ $X = 1$, $y = 5.85$

$\quad$ $X = 2$, $y = 7.73$ $\qquad$ $X = 3$, $y = 9.61$

$\quad$ $X = 4$, $y = 11.49$ $\qquad$ $X = 5$, $y = 13.37$

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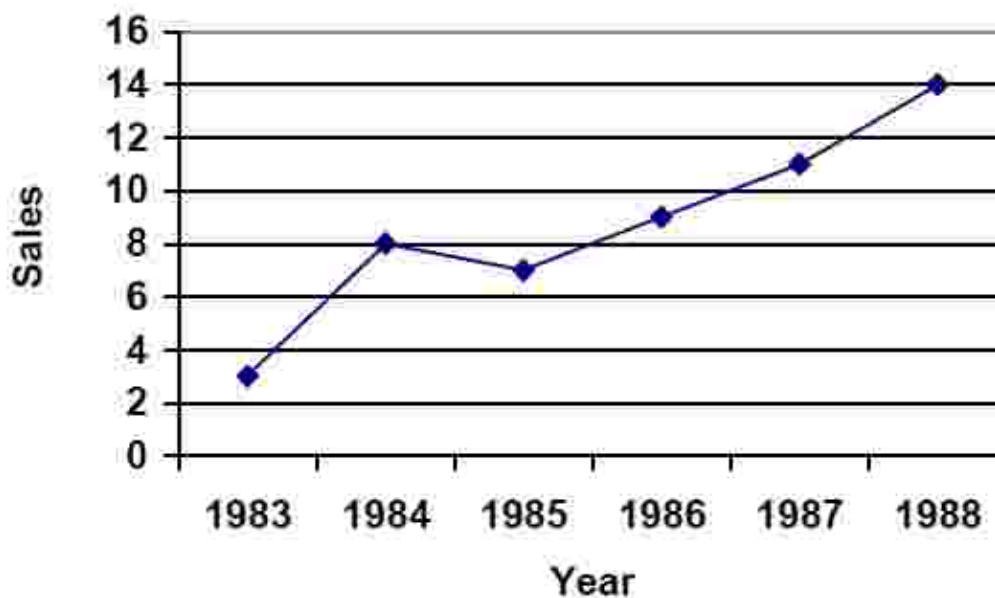| CLASS: I B.Com	COURSE NAME: BUSINESS MATHEMATICS AND STATISTICS
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The estimated sale for the year 1991 is; put $X = x - 1983$

$$= 1991 - 1983 = 8$$
$$y = 3.97 + 1.88 \times 8$$
$$= 19.01 \text{ lakhs}$$

The following graph will show clearly the trend line.

Parabolic Trend Model

The curvilinear relationship for estimating the value of a dependent variable *y* from an independent variable *x* might take the form

$y\hat{} = a + bx + cx^2$. This trend line is called the *parabola*.

For a non-linear equation $y\hat{} = a + bx + cx^2$, the values of constants *a, b*, and *c* can be determined by solving three normal equations.

$\Sigma y = na + b\Sigma x + c\Sigma x2$
$\Sigma xy = a\Sigma x + b\Sigma x2 + c\Sigma x3$
$\Sigma x2y = a\Sigma x2 + b\Sigma x3 + c\Sigma x4$

When the data can be coded so that $\Sigma x = 0$ and $\Sigma x3 = 0$, two term in the above expressions drop out and we have
$\Sigma y = na + c\Sigma x2$

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$\Sigma xy = b\Sigma x2$

$\Sigma x2y = a\Sigma x2 + c\Sigma x4$

To find the exact estimated value of the variable *y*, the values of constants *a, b,* and *c* need to be calculated. The values of these constants can be calculated by using the following shortest method:

$$a = \frac{\sum y - c \sum x^2}{n}; b = \frac{\sum xy}{\sum x^2} \text{ and } c = \frac{n \sum x^2 y - \sum x^2 \sum y}{n \sum x^4 - (\sum x^2)^2}$$

Example : The prices of a commodity during 1999-2004 are given below. Fit a parabola to these data. Estimate
the price of the commodity for the year 2005.

Year	Price	Year	Price
1999	100	2002	140
2000	107	2003	181
2001	128	2004	192

Solution: To fit a parabola $y\hat{} = a + bx + cx2$, the calculations to determine
the values of constants *a*, *b,* and *c* are shown in table

Calculations for Parabola Trend Line

Year	Time Scale (x)	Price (y)	x^2	x^3	x^4	xy	x^2y	Trend Values $(y\hat{})$
1999	-2	100	4	-8	16	-200	400	97.72
2000	-1	107	1	-1	1	-107	107	110.34
2001	0	128	0	0	0	0	0	126.68

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2002	1	140	1	1	1	140	140	146.50
2003	2	181	4	8	16	362	724	169.88
2004	3	192	9	27	81	576	1728	196.82
	3	**848**	**19**	**27**	**115**	**771**	**3099**	**847.94**

(i) $\Sigma y = na - b\Sigma x + c\Sigma x2$

$848 = 6a + 3b + 19c$

(ii) $\Sigma xy = a\Sigma x + b\Sigma x2 + c\Sigma x3$

$771 = 3a + 19b + 27c$

(iii) $\Sigma x2y = a\Sigma x2 + b\Sigma x2 + c\Sigma x4$

$3099 = 19a + 27b + 115c$

Eliminating a from eqns. (i) and (ii), we get

(iv) $694 = 35b + 35c$

Eliminating a from eqns. (ii) and (iii), we get

(v) $5352 = 280b + 168c$

Solving eqns. (iv) and (v) for *b* and *c* we get *b* =18.04 and *c* = 1.78.

Substituting values of *b* and *c* in eqn. (i), we get *a* = 126.68.

Hence, the required non-linear trend line becomes

y = 126.68 +18.04x + 1.78x^2

Conversion of Trend Equation

Trend equation depends on:

1. The origin of time reference
2. The units of time viz., weekly, monthly, yearly etc.
3. The time series value relate to annual figures or monthly averages.

Trend values can be computed by the straight line method. For simplicity and convenience, the following methods are also used. They are

1. Shifting of origin
2. Conversion of annual trend equation to monthly trend equation when the y values are in annual totals and are given as monthly averages

Conversion of annual trend values to monthly trend equation

We calculate monthly tend equation from annual trend equation. When Y unit are annual total and X units are in year then the annual trend equation can be converted into monthly trend equation i.e. ; we divide 'a' by 12 and 'b' by 144. $Y = \frac{a}{12} + \frac{b}{144}X$. If the time unit of X in the trend equation represents only 6 months, then 'b' is divided by 72 i.e.,

$$Y = \frac{a}{12} + \frac{b}{72}X$$

The annual trend equation trend equation is $Y = a + b\,X$

The monthly trend equation is $Y = \frac{a}{12} + \frac{b}{144}X$

Example:

The trend of annual production of a company described by the following equation

$$Y_c = 18 + 0.6X$$

Origin 1988; X-unit = 1 Year; Y-unit = annual production. Convert the equation to a monthly trend equation.

Solution:

Monthly trend equation:

$$Y_c = \frac{18}{12} + \frac{0.6}{144}X$$
$$= 1.50 + 0.0041\ X$$

Exponential Trend Model

When the given values of dependent variable *y* from approximately a geometric progression while the corresponding independent variable *x* values form an arithmetic progression, the relationship between variables *x* and *y* is given by an exponential function, and the best fitting curve is said to describe the *exponential trend.* Data from the fields of biology, banking, and
economics frequently exhibit such a trend. For example, growth of bacteria, money accumulating at compound interest, sales or earnings over a short period, and so on, follow exponential growth.

The characteristics property of this law is that the rate of growth, that is, the rate of change of *y* with respect to *x* is proportional to the values of the function. The following function has this property.

$y = abcx, a > 0$

The letter *b* is a fixed constant, usually either 10 or *e,* where *a* is a constant to be determined from the data.

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To assume that the law of growth will continue is usually unwarranted, so only short range predictions can be made with any considerable degree or reliability.

If we take logarithms (with base 10) of both sides of the above equation, we obtain

Log y = log a + (c log b) x (7.2)

For b =10, log b =1, but for b=e, log b =0.4343 (approx.). In either case, this equation is of the form $y' = c + dx$

Where $y' = \log y$, $c = \log a$, and $d = c \log b$.

Equation (7.2) represents a straight line. A method of fitting an exponential trend line to a set of observed values of y is to fit a straight trend line to the logarithms of the y-values.

In order to find out the values of constants a and b in the exponential function, the two normal equations to be solved are

$\Sigma \log y = n \log a + \log b \Sigma x$

$\Sigma x \log y = \log a \Sigma x + \log b \Sigma x2$

When the data is coded so that $\Sigma x = 0$, the two normal equations become

$\Sigma \log y = n \log a$ or $\log a = \frac{1}{n} \Sigma \log y$

and $\Sigma x \log y = \log b \Sigma x^2$ or $\log b = \frac{\Sigma x \log y}{\Sigma x2}$

Coding is easily done with time-series data by simply designating the center of the time period as x =0, and have equal number of plus and minus period on each side which sum to zero.

Example :

The sales (Rs. In million) of a company for the years 1995 to 1999 are:

Year : 1995   1996   1997   1998   1999

Sales :   1.6   4.5   13.8   40.2   125.0

Find the exponential trend for the given data and estimate the sales for 2002.

Solution:

computational time can be reduced by coding the data. For this consider $u = x$-3. The necessary computations are shown in table

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Fitting the Exponential Trend Line

Year	Time Period x	$u=x-3$	u^2	Sales y	Log y	u log y
1995	1	-2	4	1.60	0.2041	-0.4082
1996	2	-1	1	4.50	0.6532	-0.6532
1997	3	0	0	13.80	1.1390	0
1998	4	1	1	40.20	1.6042	1.6042
1999	5	2	4	125.00	2.0969	4.1938
			10		**5.6983**	**4.7366**

$$\log a = \frac{1}{n} \Sigma \log y = \frac{1}{5}(5.6983) = 1.1397$$

$$\log b = \frac{\Sigma u \log y}{\Sigma u^2} = \frac{4.7366}{10} = 0.4737x$$

Therefore log y = log a + (x+3) log b = 1.1397 + 0.4737x

For sales during 2002, x =3, and we obtain

log y = 1.1397 + 0.4737 (3) = 2.5608

y = antilog (2.5608) = 363.80

Seasonal Variations:

Seasonal Variations are fluctuations within a year during the season. The factors that cause seasonal variation are

i) Climate and weather condition.

ii) Customs and traditional habits.

For example the sale of ice-creams increase in summer, the umbrella sales increase in rainy season, sales of woolen clothes increase in winter season and agricultural production depends upon the monsoon etc.,

Secondly in marriage season the price of gold will increase, sale of crackers and new clothes increase in festival times.

So seasonal variations are of great importance to businessmen, producers and sellers for planning the future. The main objective of the measurement of seasonal variations is to study their effect and isolate them from the trend.

Measurement of seasonal variation:

The following are some of the methods more popularly used for measuring the seasonal variations.

1. Method of simple averages.
2. Ratio to trend method.
3. Ratio to moving average method.
4. Link relative method

Method of simple averages

The steps for calculations:

i) Arrange the data season wise
ii) Compute the average for each season.
iii) Calculate the grand average, which is the average of seasonal averages.
iv) Obtain the seasonal indices by expressing each season as percentage of Grand average

The total of these indices would be $100n$ where 'n' is the number of seasons in the year.

Example

Find the seasonal variations by simple average method for the data given below.

Year	Quarter I	Quarter II	Quarter III	Quarter IV
1989	30	40	36	34
1990	34	52	50	44
1991	40	58	54	48
1992	54	76	68	62
1993	80	92	86	82

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Solution:

<table>
<tr><td></td><td colspan="4" align="center">Quarter</td></tr>
<tr><td>Year</td><td>I</td><td>II</td><td>III</td><td>IV</td></tr>
<tr><td>1989</td><td>30</td><td>40</td><td>36</td><td>34</td></tr>
<tr><td>1990</td><td>34</td><td>52</td><td>50</td><td>44</td></tr>
<tr><td>1991</td><td>40</td><td>58</td><td>54</td><td>48</td></tr>
<tr><td>1992</td><td>54</td><td>76</td><td>68</td><td>62</td></tr>
<tr><td>1993</td><td>80</td><td>92</td><td>86</td><td>82</td></tr>
<tr><td>Total</td><td>238</td><td>318</td><td>294</td><td>270</td></tr>
<tr><td>Average</td><td>47.6</td><td>63.6</td><td>58.8</td><td>54</td></tr>
<tr><td>Seasonal Indices</td><td>85</td><td>113.6</td><td>105</td><td>96.4</td></tr>
</table>

$$\text{Grand average} = \frac{47.6 + 63.6 + 58.8 + 54}{4}$$

$$= \frac{224}{4} = 56$$

Seasonal Index for

$$\text{I quarter} = \frac{First\ quarterly\ Average}{Grand\ Average} \times 100$$

$$= \frac{47.6}{56} \times 100 = 85$$

Seasonal Index for

$$\text{II quarter} = \frac{Second\ quarterly\ Average}{Grand\ Average} \times 100$$

$$= \frac{63.6}{56} \times 100 = 113.6$$

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Seasonal Index for

III quarter $= \dfrac{Third\ quarterly\ Average}{Grand\ Average} \times 100$

$= \dfrac{58.8}{56} \times 100 = 105$

Seasonal Index for

IV quarter $= \dfrac{Fourth\ quarterly\ Average}{Grand\ Average} \times 100$

$= \dfrac{54}{56} \times 100 = 96.4$

Ratio to Trend Method

The steps for calculation:

(i) By applying the method of least squares, we can obtain the trend values.

(ii) We must divide the original data of time series for each season (month quarter) by the corresponding trend values and multiply these ratio by 10, i.e. $\dfrac{T \times S \times C \times I}{T} x100 = S \times C \times I \times 100$. Thus the trend eliminated values are obtained. This percentage will include seasonal, cyclical and irregular fluctuation.

(iii) In order to eliminate the irregular and cyclical movement, the seasonal figures are averaged with any one of the measures of central tendency, mean or median. Thu we obtain the indices for seasonal variation for different season.

(iv) Thee indices are adjusted to a total of ,200 for monthly data or 400 for quarterly data by multiplying each index by a suitable factor $\left(\dfrac{1200}{\text{the sum of the 12 monthly values}} \text{ or } \dfrac{400}{\text{the sum of the 4 quarterly values}} \right)$ Thus we get Seasonal Index.

Ratio to Moving Average Method

The steps for calculation:

(i) Calculate12 month moving average , which eliminates seasonal and irregular fluctuations and represents trend and cycle. i.e., T.C.

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(ii)Express the original values a percentage of centres moving average values for all month, i.e.,

$$\frac{\text{Original Value}}{\text{Moving Average vlue}} \times 100 = \frac{\text{TSCI}}{\text{TC}} \times 100$$

$$= \text{SI} \times 100$$

(iii)As in the above said two methods, arrange these percentages according to year and months. By averaging these percentages for each month, we can eliminate irregular factors. Mean or Median can be used for averaging.

(iv)The sum of thee indices should be 1,200 (400) for monthly or quarterly data. If it is not so, an adjustment is made to eliminate the discrepancy; i.e.,

$$\left(\frac{1200}{\text{sum of monthly indices}} \text{ or } \frac{400}{\text{sum of quarterly indices}}\right)$$

This express the preliminary index as a percentage of their arithmetic mean.

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POSSIBLE QUESTIONS

PART – B (5 x 2 = 10 Marks)

1. Write any two characteristics of index numbers.
2. Find the trend, where $Y_T = 140 + 20(X – 1981)$, if $x = 1979,1980$.
3. What are the types of secular trend?
4. Write the formula for laspeyre's and pasche's method.
5. What is moving average?

PART – C (5 x 6 = 30 Marks)

1. Compute Price Index based on the simple average of price relatives by using Arithmetic Mean.

Commodity	A	B	C	D	E	F	G	H
Price 1997 (in Rs.):	40	120	140	130	60	70	65	75
Price 1998 (in Rs.)	60	140	170	135	100	80	75	80

2. Draw a trend line by the method of semi averages.

         Year :1987   1988   1989   1990   1991   1992   1993
   Production : 90   110   130   150   100   150   200

3. Construct the Cost of Living Index number for the following data:

Item	Base Year Price	Current Year Price	Weight
Food	39	47	4
Fuel	8	12	1
Clothing	14	18	3
House rent	12	15	2
Miscellaneous	5	30	1

4. Fit a linear trend equation by the method of least squares and estimate the net profit in 2003.

   Year   : 1995   1996   1997   1998   1999   2000   2001
   Net profit : 32   36   44   37   71   72   109
   (Rs.)

5. Calculate the Price Index by Weighted G.M method for the following data.

Item	A	B	C	D	E
Weight	40	25	15	10	10
Price 2001 (in Rs.):	25	50	40	10	20
Price 2011 (in Rs.)	40	80	60	20	40

6. Using the four year moving averages determine the trend and short term fluctuation.

      Year: 1981   1982   1983   1984   1985   1986   1987   1988   1989   1990
  Production : 464   515   518   467   502   540   557   571   586   612

7. Fit a linear trend equation by the method of least squares and estimate the net profit in 2003.

   Year   : 1995   1996   1997   1998   1999   2000   2001
  Net profit : 32   36   44   37   71   72   109
    (Rs.)

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8. Find Laspeyre's, Paasche's and Fisher's Price Index for the following data:

Commodity	2003		2004	
	Price (Rs)	Quantity ('00)	Price (Rs)	Quantity ('00)
Erasers	05	25	06	30
Pencils	10	05	15	04
Markers	03	40	02	50
Ball Pens	06	30	08	35

9. Calculate the price index numbers by (i) Simple G.M method (ii) Weighted G.M method for the following data.

Item	A	B	C	D	E	Weight
	40	25	15	10	10	
Price in 1991(Rs.)	25	50	40	10	20	
Price in 2001(Rs.)	40	80	60	20	40	

10. Fit a straight line trend equation to the following data by the method of Least squares .

Year:	1979	1980	1981	1982	1983
Sales (Rs.):	100	120	140	160	180

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Pollachi Main Road, Eachanari (Po),
Coimbatore –641 021

Subject: Business Mathematics &Statistics		Subject Code: 17CMU202		
Class : I B.Com		Semester : II		

UNIT - V
Time-based Data: Index Numbers and Time-Series Analysis
PART A (20x1=20 Marks)
(Question Nos. 1 to 20 Online Examinations)
Possible Questions

Question	Choice 1	Choice 2	Choice 3	Choice 4	
A ------- is an arrangement of statistical data in a chronological order.	forecasting	evaluation	comparison	all the above	
Time series helps in ----------.	3	4	2	5	
There are ------- types of components of a time series.	multiplicative	secular	additive	cyclical	
The ------------ model assumes that the observed value is the sum of four component of time series	multiplicative	secular	additive	cyclical	
The ---------- model assumes that the observed value is obtained by multiplying the trend by the rates of three other components	5	1	7	3	
Seasonal variations repeat during a period of----- years.	depression in business	growth of population	weather and social customs	none of these	
The most important factor causing seasonal variations is-----	ratio to trend method	simple average method	ratio to moving average method	none of these	

Prepared by: R. Praveen Kumar, Department of Mathematics, KAHE

If the trend is absent, the seasonal indices are known by-------	trend is not clear	the trend is linear	trend is not linear	none of these
The trend can be found by the method of least squares if the --------	rate of growth is positive	growth rate is constant	growth is not constant	none of these\
The trend is linear if ---------	ratio to trend method	link relative	ratio to moving average	none of these
The most widely used method of measuring seasonal variations is ---------	graphic method	method of least squares	semi average method	moving average method
The ----------------may be used either to fit a straight line trend or a parabolic trend.	which year was selected as the origin?	what is the unit of time represented by	In what kind of units is Y being measured?	all the above
Whenever we fit any straight line trend by the least squares method,which things should be specified?	linear trend	secular trend	non-linear trend	none of the above
The simplest example of the --------- is the second degree parabola.	1	2	3	0
In second deree parabola when time origin is taken between two middle years $\sum X$ would be --------.	straight line	non-linear curve	either a or b	none of these
Trends may also be plotted on a semi-loarithmic chart in the form of a-------	1	2	3	4
How many types of trend are usually computed by logarithms?	exponential tends	growth curves	both a and b	none of these
The types of trend usually computed by logarithms are ---------	seasonal	secular	cyclical	irregular
A ----------- variations repeat during a period of 1 year.	time series	data	correlation	index number

The------ helps in forescating,evaluation and comparison.	non-linear	linear	clear	none of these	
The trend is ----------- if growth rate is constant.	seasonal	secular	cyclical	irregular	
The most important factor causing -------- variations is weather and social customs.	ellipse	parabola	hyperbola	circle	
The simplest example of the non-linear trend is the second degree --------	averages	percentages	economic activity	time series	
Index numbers are special type of ----------	current	past	future	arbitrary	
The base period should not be too distant from the -----	unit test	time reversal test	factor test and circular test	all the above	
A good index number is one that satisfies------------------------ -----	Index numbers	averages	time series	trend	
--------------- help to calculate the real wages	A.M	G.M	H.M	both A.M and G.M	
The best average to calculate index number is --------------	simple A.M method	Kelly's method	Laspeyre's method	Fisher's method	
Current year quantity is used in --------------	Base year quartiles	Current year quartiles	Both of them	Average of current and base year	
Laspeyre's index is based on--------------------------	Laspeyre's method	Paasche's method	Fisher's method	Bow ley's method	
Time Reversal test is satisfied by------------------------------	8	90	111.11	110	

If the price of a commodity is Rs.80 in the base year and Rs.72 in the current year, the Price index number is-------	current year	base year	future year	arbitrary year	
In Laspeyre's index number, importance is given to the quantity of---------	Bow ley's formula	Laspeyre's formula	Paasche's formula	Fisher's formula	
The current year quantities are taken as weights in------	$P01$ x$P10$ $= 0$	P_{01} x$P_{10} < 1$	P_{01} x$P_{10} = 1$	P_{01} x$P_{10} > 1$	
Time reversal test condition is--------	$P_{01}Q_{01} = \text{å}p_1q_1/ \text{å}p_0q_0$	$P_{01}Q_{01} < \text{å}p_1q_1/ \text{å}p_0q_0$	$P_{01}Q_{01} > \text{å}p_1q_1/ \text{å}p_0q_0$	$P_{01}Q_{01} = \text{å}p_1q_1$	
Factor reversal test condition is = ----------	an upward bias	a downward bias	either upward or downward bias	no bias	
Paasche's index number is generally expected to have--------	å log P/N	åP/N	N/åP	åP/ log N	
The formula for unweighted averages of relatives' method by using A.M.,	arithmetic mean of Laspeyre's and Paasche's index	geometric mean of Laspeyre's and Paasche's	median of Lasoeyre's and Paasche's index	all of the above	
Fisher's ideal index is--------	151	150	151.61	125.2	
If åp$_0$ is 3100 and åp$_1$ is 4700 then P$_{01}$ =--------------	Laspeyre's formula	Paasche's formula	Fisher's formula	both a) and b)	
$P = \sqrt{P_{01}}^{L}$ x P_{01}^{P} is --------------------	consumer	Laspeyre's	Paasche's	Fisher	
Family budget method is a method to calculate ----- price index.	median	geometric mean	arithmetic mean	mode	
The best average in the construction of index number is	value index	price index	quantity index	quality index	

Commodities which show considerable price fluctuation could be best measured by a	factor reversal test	time reversal test	t-test	f-test	
The circular test is an extension of the	weighted	fixed weighted	un weighted	fixed un weighted	
Most frequently used index number formulae are	base year quantities	current year quantities	base year qualities	current year qualities	
Laspeyre's index is based on	Kelly's	Walsch's	Fisher's price	Marshall-Edgeworth's	
------- index number uses the geometric mean of the base year and current year quantities as weights.	Value index	Laspeayre's index	Paasche's index	Fisher ideal index	
----- is the sum of the values of a given year divided by the sum of the values of the base year.	$(p_1 / p\text{-}_0) * 100$	$(p_1 / q\text{-}_0) * 100$	$(q_1 / p\text{-}_1) * 100$	$(p_1 / q_1) * 100$	
Formula for price relative or price index number of a commodity P is-----	Ideal	economic	special	commercial	
Fisher's formula is called --------- index number formula	Laspeyre's method	Paasche's method	Fisher's method	both a) and b)	
Factor reversal test is satisfied by------------	current	base	average	calculated	
The year for which index number is calculated is called ---------year.	p_1	p_0	q_0	q_1	
Notation of price of a commodity in the current year is-------	Time series	Mean	Mode	Index number	
---------- are the pulse of an economy	100/Price index	Price index /100	Money wage/Price index *100	Price index *100	

Purchasing power = ------------	p_1	p_0	q_0	q_1
Notation of price of a commodity in the base year is-------	p_1	p_0	q_0	q_1
Notation of quantity of a commodity in the current year is-------	25%	10%	125%	35%
If the price of a commodity is Rs.40 in the base year and Rs.50 in the current year, the Price has increased by-------	$P_{01} \times P_{12} \times P_{20} = 1$	$P_{12} \times P_{20} = 1$	$P_{01} \times P_{12} = 1$	$P_{01} \times P_{12} \times P_{20} = 0$
By circular test ---------------	current year	base year	arbitrary year	previous year
Link relative is a price or quantity relative with the condition that ------------- is the preceding year.	Consumer price	Consumer price index number	Consumer price index number	price index number
Cost of living index number is also known as -----------	price	quantity	both	neither price nor quantity
In Factor reversal test P_{01} gives the relative change in ---------	price	quantity	both	neither price nor quantity
In Factor reversal test Q_{01} gives the relative change in --------	Time reversal test	Factor reversal test	Fisher's test	both a and b
----------- satisfies the Kelly's test.	Time reversal test	Factor reversal test	Fisher's test	both a and b
Fisher's index satisfy ------------	price multiplied by quantity	quantity	both	price
In Factor reversal test $P_{01} \times Q_{01}$ gives the relative change in ----------	ratio	percentage	fraction	mean

Index number are expressed in ------	base year quantities	current year quantities	base year qualities	current year qualities	
Paasche index is based on	forecasting	evaluation	comparison	index numbers	
Answer					
all the above					
4					
additive					
multiplicative					
1					
weather and social customs					
simple average method					
trend is not linear					
growth rate is constant					
ratio to moving average					
method of least squares					
all the above					
non-linear trend					
0					
either a or b					
2					
both a and b					
seasonal					
time series					
linear					
seasonal					
parabola					
time series					
current					
all the above					
Index numbers					

G.M					
Fisher's method					
Base year quartiles					
Fisher's method					
90					
base year					
Paasche's formula					
$P_{01} \times P_{10} = 1$					
$P_{01}Q_{01} = åp_1q_1 / åp_0q_0$					
an upward bias					
$åP/N$					
geometric mean of Laspeyre's and Paasche's index					
151.61					
Fisher's formula					
consumer					
geometric mean					
quantity index					
time reversal test					
weighted					
base year quantities					
Walsch's					
Value index					
$(p_1 / p_0) * 100$					
Ideal					
Fisher's method					
current					
p_1					
Index number					
100/Price index					
p_0					
q_1					
25%					
$P_{01} \times P_{12} \times P_{20} = 1$					

Prepared by: R. Praveen Kumar, Department of Mathematics, KAHE

base year					
Consumer price index number					
price					
quantity					
Time reversal test					
both a and b					
price multiplied by quantity					
percentage					
current year quantities					
Index numbers					

KARPAGAM ACADEMY OF HIGHER EDUCATION

CLASS: I B. Com	COURSE NAME: BUSINESS MATHEMATICS & STATISTICS	
COURSE CODE: 17CMU202	CIA – I Answer Key	BATCH-2017-2020

PART - A (20 x 1 =20 Marks)

1.matrix

2.symmetric

3.of same order

4.adj (A)/|A|

5.mn

6.$AA^{T} = I$

7.0

8.A

9.Rs.1500

10.Rs.120

11.Rs.6765

12.interest

13.principal

14.4

15.variables

16.many

17.explicit

18.odd

19.polynomial

20.addition

KARPAGAM ACADEMY OF HIGHER EDUCATION

CLASS: I B. Com	COURSE NAME: BUSINESS MATHEMATICS & STATISTICS
COURSE CODE: 17CMU202	CIA – I Answer Key	BATCH-2017-2020

PART-B (3 x 2 = 6 Marks)

21. P=6000,r=10,n=3

    I=1800

22. adj A= $\begin{pmatrix} 6 & -5 \\ -8 & 5 \end{pmatrix}$

    A^{-1}=-1/10 $\begin{pmatrix} 6 & -5 \\ -8 & 5 \end{pmatrix}$

23. Single valued function, Explicit and Implicit function, Odd and even function, Binomial ,Exponential

    and logarithmic function and Polynomial.

PART-C (3 x 8 = 24 Marks)

24.a)5A= $\begin{pmatrix} 10 & 15 & 25 \\ 20 & 35 & 45 \\ 5 & 30 & 20 \end{pmatrix}$, 5B= $\begin{pmatrix} 15 & 5 & 10 \\ 20 & 10 & 25 \\ 30 & -10 & 35 \end{pmatrix}$,

5A +5B= $\begin{pmatrix} \mathbf{25} & \mathbf{20} & \mathbf{35} \\ \mathbf{40} & \mathbf{45} & \mathbf{70} \\ \mathbf{35} & \mathbf{20} & \mathbf{55} \end{pmatrix}$ **5(A+B)=** $\begin{pmatrix} \mathbf{25} & \mathbf{20} & \mathbf{35} \\ \mathbf{40} & \mathbf{45} & \mathbf{70} \\ \mathbf{35} & \mathbf{20} & \mathbf{55} \end{pmatrix}$

  b)i)P=4000, I=2500, n=50/1 **Ans: r=15 %**

  ii)P=2500,n=4 , r=8 **Ans: CI=Rs.901.22**

25.a) A^2= $\begin{pmatrix} 9 & 8 & 8 \\ 8 & 9 & 8 \\ 8 & 8 & 9 \end{pmatrix}$, 4A= $\begin{pmatrix} 4 & 8 & 8 \\ 8 & 4 & 8 \\ 8 & 8 & 4 \end{pmatrix}$

  A^2-4A-5I=0

  Ans : A^{-1}=1/5 $\begin{pmatrix} \mathbf{-3} & \mathbf{2} & \mathbf{2} \\ \mathbf{2} & \mathbf{-3} & \mathbf{2} \\ \mathbf{2} & \mathbf{2} & \mathbf{-3} \end{pmatrix}$

  b)Given r=12 and m=12

  s=100$\{(1 + 12/1200)^{12} -1\}$

  Ans : s=12.68%

  Compounded continuously **s=12.75 %**

KARPAGAM ACADEMY OF HIGHER EDUCATION

CLASS: I B. Com   **COURSE NAME: BUSINESS MATHEMATICS & STATISTICS**
COURSE CODE: 17CMU202   **CIA – I Answer Key**   **BATCH-2017-2020**

26. a) $f(x)=x-2+(50/x^2)$, $f'(x) =1-(100/x^3)$

Ans : f' (5)=0.2 and f'(10) =0.9

b) $f(3)=0/0$. By using Factorization method $f(x) = \lt \frac{(x+4)(x-3)}{(x-3)(x+2)}$

Ans : 1.4

BUSINESS MATHEMATICS & STATISTICS

KEY ANSWER

PART-A

1.Relationship between two variables

2. 1 and -1

3. 90 degree

4. orgin

5. No correlation

6. -1

7. Average X only

8. Spearman

9. 1

10. No correlation

11. 1

12. Graphic correlation

13. Index number

14.Fisher's method

15. (p1/p0)*100

16. Ideal

17. seasonal

18. 100/price index

19. Parabola

20. q1

PART-B

21. Correlation:

The term correlation refers to the relationship between two variables.

It has been minimum and maximum values.

Formula for coefficient of correlation is

$$r = \sum xy / \sqrt{\sum_x 2 * \sum_y 2}$$

22. $b_{xy} = r\, \sigma_x / \sigma_y = 0.55714$

23. $Y_T = 100, 120$

PART-C

24. a. $\sum xy = 61, \sum_x 2 = 54, \sum_y 2 = 96$

Karl pearson's coefficient of correlation = $\sum \dfrac{xy}{\sqrt{\sum_x 2 * \sum_y 2}}$ =0.84

b. $\sum_D 2 = 40$, N=10

K= 1- $6\sum_D 2/(N^3 - N)$ = 1- 0.24=0.76

25. a. Mean $\bar{X} = 24$, $\bar{Y} = 47$

i)Two regression equations:

$b_{xy} = \sum xy / \sum_y 2$ =0.30

Regression equation on x

$(x - \bar{x}) = b_{xy} (y - \bar{y})$

x=0.30y-9.9

regression equation on y

$(y - \bar{y}) = b_{yx}(x - \bar{x})$

Y=0.30x-54.2

ii) r= $\sum xy / \sqrt{\sum_x 2 - \sum_y 2}$

$$\sum xy = 87, \sum_x 2 = 269, \sum_y 2 = 2965$$

r = 0.99

b. let Y=a+bX

normal equations $na+b\sum X = \sum Y$

$$a\sum X + b\sum_x 2 = \sum XY$$

n=5, $\sum X$ =0, $\sum Y$=700, $\sum XY$=200

a=140, b=20

26. a. weighted G.M method:

G.M= antilog$[\sum w\ log\ p/ \sum w]$

$$\sum w = 100 , \sum p = 291.6, \sum \log p = 8.78$$

G.M = antilog[8.78]

b. four year moving averages

491 500.5 506.7 516.5 542.5 563.5 581.5

[16CMU202/16CCU202/16COU202/16BPU202]

KARPAGAM UNIVERSITY
Karpagam Academy of Higher Education
(Established Under Section 3 of UGC Act 1956)
COIMBATORE   641 021
(For the candidates admitted from 2016 onwards)

B.Com., DEGREE EXAMINATION, APRIL 2017
Second Semester

COMMERCE/COMMERCE (COMPUTER APPLICATIONS)
COMMERCE (CORPORATE SECRETARYSHIP)/
COMMERCE (BUSINESS PROCESS SERVICES)

BUSINESS MATHEMATICS AND STATISTICS

Time: 3 hours   Maximum : 60 marks

PART – A (20 x 1 = 20 Marks) (30 Minutes)
(Question Nos. 1 to 20 Online Examinations)

PART B (5 x 2 = 10 Marks) (2 ½ Hours)
Answer ALL the Questions

21. If $A = \begin{pmatrix} 3 & 4 & 7 \\ 2 & 1 & 3 \\ 7 & 2 & 1 \end{pmatrix}$, find 3A.

22. Find $\frac{d}{dx}(2x - 7)$.

23. Determine the mode: 3, 6, 3, 8, 4, 9, 3.

24. What are the limitations of correlation coefficient?

25. State the characteristics of Index number?

PART C (5 x 6 = 30 Marks)
Answer ALL the Questions

26. (a) Show that $A = \begin{pmatrix} 1 & 2 & 2 \\ 2 & 1 & 2 \\ 2 & 2 & 1 \end{pmatrix}$ satisfies the equation $A^2 - 4A - 5I = 0$, where I is the

identity matrix and 0 denotes the zero matrix
Or

1

(b) From the following interindustry transaction demand table find
(i) the value added by each industry and (ii) the matrix of technical
coefficients.

Producer	User			Final demand	Total demand
	Steel	cement	power		
	(Rs. Crores)			(Rs. Crores)	(Rs. Crores)
steel	200	200	200	200	1000
cement	100	200	100	100	500
power	200	50	200	350	800

27. (a) (i) Find the derivative of $y = (x^2 + 5)(3x + 1)$
    (ii) If $C(x)$ rupees is the total cost of manufacturing x toys and
    $C(x) = 500 + (50/x) + (x^2/10)$, find the average cost and the marginal cost
    when $x = 20$.

Or

(b) Discuss the maximum or minimum values of $x^2 - y^2 + 6x + 12$.

28. (a) Calculate the mean for the following table giving the age distribution of 542
    members.

| Age (in years) | 20-30 | 30-40 | 40-50 | 50-60 | 60-70 | 70-80 | 80-90 |
| No. of members | 3 | 61 | 132 | 153 | 140 | 51 | 2 |

Or

(b) Calculate standard deviation from the following data:

| X | 6 | 9 | 12 | 15 | 18 |
| f | 7 | 12 | 19 | 10 | 2 |

29. (a) Find Karl Pearson's coefficient of correlation

| X: | 100 | 101 | 102 | 102 | 100 | 99 | 97 | 98 | 96 | 95 |
| Y: | 98 | 99 | 99 | 97 | 95 | 92 | 95 | 94 | 90 | 91 |

Or

(b) Calculate the two regression equations from the following data:

| X: | 10 | 12 | 13 | 12 | 16 | 15 |
| Y: | 40 | 38 | 43 | 45 | 37 | 43 |

30. (a) What are the uses of index numbers.

Or

(b) Fit a straight line trend equation to the following data by the method of least
    squares.

| Year | 1979 | 1980 | 1981 | 1982 | 1983 |
| Sales (in Rs.): | 100 | 120 | 140 | 160 | 180 |