

தொகுப்பு: ந. சண்முகசுந்தரம் (மருதம் ஆசிரியர்), அ.எண்: 96598 38789

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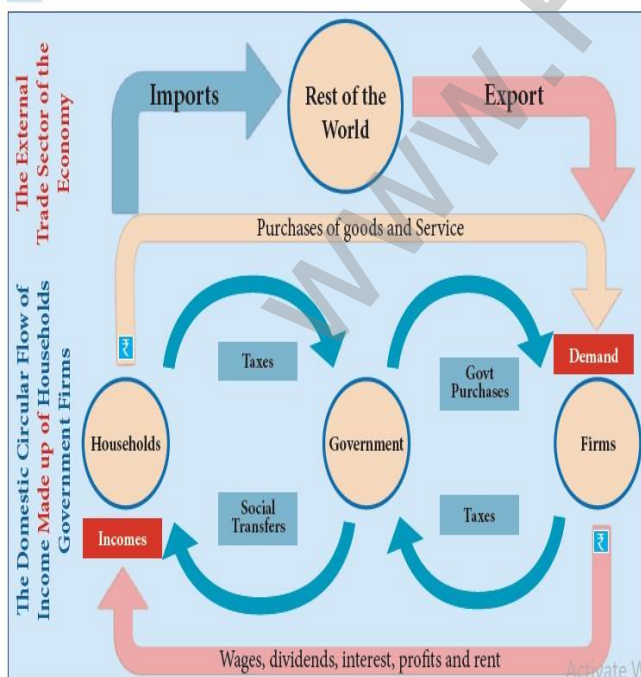
## HIGHER SECONDARY SECOND YEAR ECONOMICS – INSIDE 2024 - 25

### Globalism

The term coined by Manfred D Steger (2002) to denote the new market ideology of globalisation that connects nations together through international trade and aiming at global development. This ideology is also termed as 'Extended Capitalism'.

**7. Inequalities of Income:** A capitalist society is divided into two classes – 'haves' that is those who own property and 'have-nots' who do not own property and work for their living. The outcome of this situation is that the rich become richer and poor become poorer. Here, economic inequality goes on increasing.

#### 1.9.3 Circular Flow of Income in a Four-Sector Economy:



### 2.4.8 Real Income

Nominal income is national income expressed in terms of a general price level of a particular year in other words, real income is the buying power of nominal income. National income is the final value of goods and services produced and expressed in terms of money at current prices. But it does not indicate the real state of the economy. The real income is derived as follows:

$$\text{Real Income at constant price} = \frac{\text{National Income at current price}}{P_1 / P_0}$$

### 2.7.3 Unpaid services

A housewife renders a number of useful services like preparation of meals, serving, tailoring, mending, washing, cleaning, bringing up children, etc. She is not paid for them and her services are not directly included in national income. Such services performed by paid servants are included in national income. The

### 2.8.4 National income in terms of US\$

When Indian national income is expressed in terms of US\$, the former looks very low. If Purchasing Power Parity (PPP) method is adopted India looks better.

### 3. Frictional Unemployment (Temporary Unemployment)

Frictional unemployment arises due to imbalance between supply of labour and demand for labour. This is because of immobility of labour, lack of necessary skills, break down of machinery, shortage of raw materials etc. The persons who lose jobs and in search of jobs are also included under frictional unemployment.

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Aggregate demand has the following four components:

1. Consumption demand
2. Investment demand
3. Government expenditure and
4. Net Export ( export – import )

Table: 2 Calculation of APC, MPC, APS and MPS

Income Y	Consumption C	APC % C/Y	APS % S/Y	MPC $\Delta C/\Delta Y$	MPS $\Delta S/\Delta Y$
120	120	$(120/120)100 = 100$	$(0/120)0$	-	-
180	170	$(170/180)100 = 94$	$(10/180)100$	$50/60 = 0.83$	0.17

## Autonomous Investment

- Investment that is not dependent on the national income
- Mainly done with the welfare motive and not for making profits
- Examples : Construction of road, bridges, School, Charitable houses
- Not affected by rise in raw materials or wages of workers
- Essential to development of nation and out of depression

## Factors Affecting MEC:

Three factors that are taken into consideration while making any investment decision

- The cost of the capital asset
- The expected rate of return from during its lifetime
- The market rate of interest

MEC

## MEC depends on two factors:

1. The prospective yield from a capital asset.
2. The supply price of a capital asset.

## Positive Multiplier and Negative Multiplier Effects

### Positive Multiplier

When an initial increases in an injection (or a decrease in a leakage ) leads to a greater final increase in real GDP.

### Negative Multiplier

When an initial increases in an injection (or an increase in a leakage ) leads to a greater final decrease in real GDP.

## Accelerator Effects

Increase in consumer demand

Films get close to fill capacity

Films invest to meet rising demand

$$\text{Accelerator } (\beta) = \frac{\Delta I}{\Delta C}$$

## KINDS OF MULTIPLIER

1. Tax multiplier
2. Employment multiplier
3. Foreign Trade multiplier
4. Investment Multiplier

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### The history of Barter system starts way back in 6000 BC

- Barter system was introduced by Mesopotamia tribes.
- Phoenicians adopted bartering of goods with various other cities across oceans.
- Babylonian's also developed an improved barter system, where goods were exchanged for goods.

Money supply is a stock variable. RBI publishes information for four alternative measures of Money supply, namely  $M_1, M_2, M_3$  and  $M_4$ .

$M_1$  = Currency, coins and demand deposits

$M_2$  =  $M_1$  + Savings deposits with post office savings banks

$M_3$  =  $M_2$  + Time deposits of all commercial and cooperative banks

$M_4$  =  $M_3$  + Total deposits with Post offices.

$M_1$  and  $M_2$  are known as narrow money

$M_3$  and  $M_4$  are known as broad money

### Currency Symbol



The new symbol designed by D.Udaya Kumar, a post graduate of IIT Bombay was finally selected by the Union cabinet on 15th July, 2010. The new symbol, is an amalgamation of Devanagari 'Ra' and the Roman 'R' without the stem. The symbol of India rupee came into use on 15th July, 2010. After America, Britain, Japan, Europe Union. India is the 5th country to accept a unique currency symbol.

The first hyper inflation of the 21st century Zimbabwe's annual inflation rate surged to an unprecedented 3714 percent at the end of April 2007.

### History Of Indian BANKS

- ❖ The first bank of India was Bank of Hindustan (1770) (Under British Rule)
- ❖ The Banking system in India was controlled and dominated by the Presidency Banks.

There were three Presidency Banks:

1. Bank of Bengal (1809)
2. Bank of Bombay (1840)
3. Bank of Madras (1843)

They were called  
Presidential Banks

All Merged (1921)



IMPERIAL BANK OF INDIA

Change into (1955)



SBI

The Repo Rate and the Reverse Repo Rate are the frequently used tools with which the RBI can control the availability and the supply of money in the economy. RR is always greater than RRR in India

Repo Rate: (RR)	Reverse Repo Rate: (RRR)
The rate at which the RBI is willing to lend to commercial banks is called Repo Rate. Whenever banks have any shortage of funds they can borrow from the RBI, against securities. If the RBI increases the Repo Rate, it makes borrowing expensive for banks and vice versa. As a tool to control inflation, RBI increases the Repo Rate, making it more expensive for the banks to borrow from the RBI. Similarly, the RBI will do the exact opposite in a deflationary environment.	The rate at which the RBI is willing to borrow from the commercial banks is called reverse repo rate. If the RBI increases the reverse repo rate, it means that the RBI is willing to offer lucrative interest rate to banks to park their money with the RBI. This results in a decrease in the amount of money available for banks customers as banks prefer to park their money with the RBI as it involves higher safety. This naturally leads to a higher rate of interest which the banks will demand from their customers for lending money to them.

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## The Two Faces of Monetary Policy

### Inflation

1. Borrowing is easy
2. Consumers buy more
3. Businesses expand
4. More people are employed
5. People spend more

Cheap Money Policy

### Recession

1. Borrowing is difficult
2. Consumers buy less
3. Businesses Postpone expansion
4. Unemployment increases
5. Production is reduced

Dear Money Policy

### NEFT

National electronic Fund Transfer

Transactions happens in batches hence slow

Timings : 8:00 am to 6:30 pm  
(12: 30 pm on Saturday)

No minimum limit

### RTGS

Real Time Gross Settlement

Transactions Happens in real time hence fast

Timings : 9:00 am to 4:30 pm  
(1:30 pm on Saturday)

Minimum amount for RTGS transfer is ₹ 2 lakhs

## 6.14.1 Objectives of Demonetisation

1. Removing Black Money from the country.
2. Stopping of Corruption.
3. Stopping Terror Funds.
4. Curbing Fake Notes

## Factor endowment model

- Developed by Heckscher and Ohlin
- Countries with a relative factor abundance can specialise and trade
  - Abundance of skilled labour → specialisation → export → exchange for goods are services produced by countries with abundance of unskilled labour
  - Exports embody the abundant factor
  - Imports embody the scarce factor
  - Assumes a high degree of factor mobility

## Heckscher - Ohlin (H-O) theorem

### (H-O theorem)

"A capital abundant country will export the capital - intensive good, while the labor - abundant country will export the labor - intensive good."

### Factor

Factor proportions model which links exports and imports to factor endowments.

### Exports

A country exports those commodities produced with relatively large quantities of the country's relatively abundant factor.

## 7.5.5 Comparison of Classical Theory and Modern Theory

S.No	Classical Theory of International Trade	Modern Theory of International Trade
1.	The classical theory explains the phenomenon of international trade on the basis of labour theory of value.	The modern theory explains the phenomenon of international trade on the basis of general theory of value.
2.	It presents a one factor (labour) model	It presents a multi - factor (labour and capital) model.
3.	It attributes the differences in the comparative costs to differences in the productive efficiency of workers in the two countries.	It attributes the differences in comparative costs to the differences in factor endowments in the two countries.

## Devaluation of Indian Currency

Indian rupee was devalued three times since 1947.

1. On 29th September, 1949.
2. On 6th June, 1966
3. On 1st July, 1991



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**Foreign Portfolio Investment (FPI)** means the entry of funds into a nation where foreigners deposit money in a nation's bank or make purchase in the stock and bond markets, sometimes for speculation. FPI is part of capital account of BoP.

FDI has the following objectives.

1. Sales Expansion
2. Acquisition of resources
3. Diversification
4. Minimization of competitive risk.

The major sectors benefited from FDI in India are:

- (i) financial sector (banking and non-banking)
- (ii) insurance
- (iii) telecommunication
- (iv) hospitality and tourism
- (v) pharmaceuticals and
- (vi) software and information technology.

FDI is not permitted in the industrial sectors like

- (i) Arms and ammunition
- (ii) atomic energy,
- (iii) railways,

The functions of the IMF are grouped under three heads.

1. Financial – Assistance to correct short and medium term deficit in BOP;
2. Regulatory – Code of conduct and
3. Consultative - Counseling and technical consultancy.

**Agreement on Trade Related Investment Measures (TRIMs)**

TRIMs are related to conditions or restrictions in respect of foreign investment in the country. It calls for introducing equal treatment for foreign companies on par with national companies. TRIMs were widely employed by developing countries.

There are several types of Indirect Taxes, such as:

**Excise Duty:** Payable by the manufacturer who shifts the tax burden to retailers and wholesalers.

**Sales Tax:** Paid by a shopkeeper or retailer, who then shifts the tax burden to customers by charging sales tax on goods and services.

**Custom Duty:** Import duties levied on goods from outside the country, ultimately paid for by consumers and retailers.

**Entertainment Tax:** Liability is on the cinema theatre owners, who transfer the burden to cinema goers.

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### Unbalanced budget is of two types:

1. Surplus Budget
2. Deficit Budget

### Parliamentary Control over the Budget

In India, the Government Accounts are maintained in three parts:

- (i) Consolidated Fund
- (ii) Contingency Fund
- (iii) Public Accounts

In reference to the Indian Government budget, budget deficit is of four major types.

- (a) Revenue Deficit
- (b) Budget Deficit
- (c) Fiscal Deficit, and
- (d) Primary Deficit

### (III) Taxes Levied and Collected by the union but Assigned to the States (Art.269)

1. Duties in respect of succession to property other than agricultural land.
2. Estate duty in respect of property other than agricultural land.
3. Taxes on railway fares and freights.
4. Taxes other than stamp duties on transactions in stock exchanges and future markets.

### Types of Local Bodies

1. Village Panchayats
2. District Boards or Zila Parishads
3. Municipalities
4. Municipal Corporations

### (I) Union Sources

1. Corporation tax
2. Currency, coinage and legal tender, foreign exchange.
3. Duties of customs including export duties.
4. Duties of excise on tobacco and certain goods manufactured or produced in India.

### (II) State Sources

1. Capitation tax
2. Duties in respect of succession to agricultural land.
3. Duties of excise on certain goods produced or manufactured in the State, such as alcoholic liquids, opium, etc.
4. Estate duty in respect of agricultural land.

### Sources of revenue of Village Panchayats

The following are the sources of revenue of village panchayats.

- (i) general property tax,
- (ii) taxes on land,
- (iii) profession tax, and
- (iv) tax on animals and vehicles.

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**Sources of revenue of District Boards**

- (i) Grants-in-aid from the state government.
- (ii) Land Cesses.
- (iii) Toll, fees etc.
- (iv) Income from the property and loans from the state governments.

**Sources of revenue of municipalities**

- (i) taxes on property
- (ii) taxes on goods, particularly octroi and terminal tax
- (iii) personal taxes, taxes on profession, trades and employment
- (iv) taxes on vehicles and animals

**Sources of revenue of Corporations**

- (i) tax on property,
- (ii) tax on vehicles and animals,
- (iii) tax on trades, calling and employment,
- (iv) theatre and show tax,

**Remedial measures to control Air Pollution**

1. Establishment of industries away from the towns and cities
2. Increasing the length of the Chimneys in industries
3. Growing more plants and trees

**Remedial measures to control Water Pollution**

1. Comprehensive water management plan.
2. Construction of proper storm drains and settling ponds.
3. Maintenance of drain line.

**Remedial measures to control Noise Pollution**

1. Use of noise barriers
2. Newer roadway for surface transport
3. Traffic control
4. Regulating times for heavy vehicles

**Remedial measures to control Land Pollution**

1. Making people aware about the concept of a Reduce, Recycle and Reuse
2. Buying biodegradable products
3. Minimizing the usage of pesticides
4. Shifting cultivation

■ **Solid Wastes** : Non-liquid, non-soluble materials, ranging from municipal garbage to industrial wastes that contain complex, and hazardous, substances. Solid wastes include sewage sludge, agricultural refuse, demolition wastes, and mining residues.

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■ **Social Indicators:** Social indicators are normally referred to as basic and collective needs of the people. The direct provision of basic needs such as health, education, food, water, sanitation and housing facilities check social backwardness.

2. Jawaharlal Nehru (1938): set-up "National Planning Commission" by a committee but due to the changes in the political era and second World War, it did not materialize.

3. Bombay Plan (1940): The 8 leading industrialists of Bombay presented "Bombay Plan". It was a 15 Year Investment Plan.

4. S.N Agarwal (1944) gave the "Gandhian Plan" focusing on the agricultural and rural economy.

5. M.N. Roy (1945) drafted 'People's Plan'. It was aiming at mechanization of agricultural production and distribution by the state only.

6. J.P. Narayan (1950) advocated, "Sarvodaya Plan" which was inspired by Gandhian Plan and with the idea of Vinoba Bhave. It gave importance not only for agriculture, but encouraged small and cottage industries in the plan.

மருதம் அகாடமி  
YouTube Channel  
9659838789

### Functions of Statistics

- Statistics presents facts in a definite form.
- It simplifies mass of figures.
- It facilitates comparison.
- It helps in formulating and testing.
- It helps in prediction.
- It helps in the formulation of suitable policies.

### 12.8

### Types of Statistics

There are two major types of statistics named as Descriptive Statistics and Inferential Statistics.

#### Descriptive Statistics

The branch of statistics devoted to the summarization and description of data is called Descriptive Statistics

#### Inferential Statistics

The branch of statistics concerned with using sample data to make an inference about a population of data is called Inferential Statistics.

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Correlation is divided into two types as linear correlation and Non-Linear correlation based upon the Constancy of the ratio of change between the variables.

**Linear Correlation:** Correlation is said to be linear when the amount of change in one variable tends to bear a constant ratio to the amount of change in the other.

Ex.  $Y = a + bx$

**Non Linear:** The correlation would be non-linear if the amount of change in one variable does not bear a constant ratio to the amount of change in the other variables.

Ex.  $Y = a + bx^2$

#### Methods of Studying Correlation:

The various methods of ascertaining whether two variables are correlated or not are:

1. Scatter diagram Method
2. Graphic Method
3. Karl Pearson's Co-efficient of correlation and
4. Method of Least Squares.

the words 'micro' meaning small and 'macro' meaning large in the year 1933. However, macroeconomics in its modern form, began with John Maynard Keynes and his book "The General Theory of Employment, Interest and Money" published in 1936. Keynes offered an explanation for fallout from the Great Depression, when goods remained unsold and workers unemployed. Hence, Keynes is regarded as the 'Father of Modern Macro Economics'.

Economies can be classified into different types based on the

1. **Status of Development:** Developed, underdeveloped, undeveloped and developing economies.
2. **System of Activities:** Capitalist, Socialist and Mixed Economies.
3. **Scale of Activities:** Small and Large Economies.
4. **Nature of Functioning:** Static and Dynamic Economies.

There are three models of circular flow of income, representing the major economic systems.

1. **Two Sector Model:** It is for a simple economy with households and firms.
2. **Three Sector Model:** It is for a mixed and closed economy with households, firms and government.
3. **Four Sector Model:** It is for an open economy with households, firms, government and rest of the world (External sector).

**3. Transfer payments :** Expenditures incurred by the government like old age pension should not be included.

#### 2.7.6 Capital Gains

The problem also arises with regard to capital gains. Capital gains arise when a capital asset such as a house, other property, stocks or shares, etc. is sold at higher price than was paid for it at the time of purchase. Capital gains are excluded from national income.

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### 3. Frictional Unemployment

#### (Temporary Unemployment)

Frictional unemployment arises due to imbalance between supply of labour and demand for labour. This is because of immobility of labour, lack of necessary skills, break down of machinery, shortage of raw materials etc. When persons lose jobs and are in search of new jobs they have to wait for sometime. This period of joblessness is called frictional unemployment.

Aggregate demand has the following four components:

1. Consumption demand
2. Investment demand
3. Government expenditure and
4. Net Export ( export – import )

**Under employment :** Resources (eg. Labour) are not fully utilized in production

**Marginal Propensity to Consume :** The additional consumption due to an additional unit of income.

**Marginal Efficiency of Capital :** The expected rate of return over costs of a new capital good.

(i) The Average Propensity to Consume =  $\frac{C}{Y}$

(ii) The Marginal Propensity to Consume =  $\frac{\Delta C}{\Delta Y}$

(iii) The Average Propensity to Save =  $\frac{S}{Y}$

(iv) The Marginal Propensity to Save =  $\frac{\Delta S}{\Delta Y}$

### 6) Consumer credit

The availability of consumer credit at easy installments will encourage households to buy consumer durables like automobiles, fridge, computer etc. This pushes up consumption.

**MEC depends on two factors:**

1. The prospective yield from a capital asset.
2. The supply price of a capital asset.

The concept of multiplier was first developed by R.F. Khan in terms of employment. J.M Keynes redefined it as investment multiplier.

#### Accelerator Effects



$$\text{Accelerator } (\beta) = \frac{\Delta I}{\Delta C}$$

**Super Multiplier :** The combined effect of interaction of multiplier and accelerator.

Irving Fisher who published his book, 'The Purchasing Power of Money' in 1911. He gave it a quantitative form in terms of his famous "Equation of Exchange".

**Inflation :** An increase in average level of prices

**Deflation :** A fall in average level of prices, the opposite of inflation

**Disinflation :** Process of reversing inflation without generating adverse effects.

**Stagflation :** The co-existence of a high rate of unemployment and inflation. (derived from stag(nation) and (in)flation).

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**6. Lender of last resort:** The banks can borrow from the RBI by keeping eligible securities as collateral at the time of need or crisis, when there is no other source.

### Functions of ICICI

- Assistance to industries
- Provision of foreign currency loans
- Merchant banking
- Letter of credit
- Project promotion
- Housing loans
- Leasing operations

**A credit card** is a payment card issued to users (cardholders) to enable the cardholder to pay a merchant for goods and services based on the cardholder's promise to the card issuer to pay them for the amounts so paid plus the other agreed charges. The card issuer (usually

### Non-Bank Financial Institution

**(NBFI):** It is a financial institution that does not have a full banking license or is not supervised by the central bank.

**Demonetisation:** It is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency.

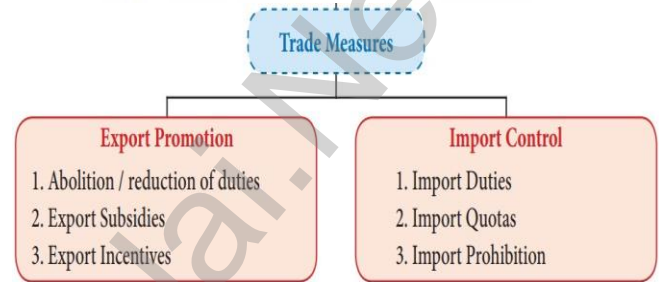
**Trade is of two types.** They are:

- a) Internal Trade and
- b) International Trade.

### 7.8.5. Types BOP Disequilibrium:

There are three main types of BOP Disequilibrium, which are discussed below.

- (a) Cyclical Disequilibrium,
- (b) Secular Disequilibrium,
- (c) Structural Disequilibrium.



### 7.9.2 Definition of FOREX

“FOREX is the system or process of converting one national currency into another, and of transferring money from one country to another”.

### 8. Speculation

If a country's currency value is expected to rise, investors will demand more of that currency in order to make a profit in the near future. This results in appreciation of the exchange rate. Beside the above determinants, relative dominance in the global politics and the power to announce economic sanctions over other countries also determine exchange rates.

Institution	Headquarters	Year of Establishment
International Monetary Fund	Washington D.C	1945
World Bank	Washington D.C	1945
World Trade Organisation	Geneva	1995

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## Objectives of the World Bank

1. Reconstruction and Development
2. Encouragement to Capital Investment
3. Encouragement to International Trade
4. Establishment of Peace-time Economy
5. Environmental Protection

Restrictions on foreign investment on following grounds are to be removed.

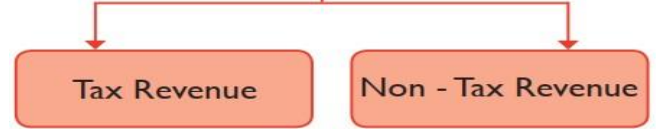
- ◆ No restriction on area of investment.
- ◆ No binding on use of local material.
- ◆ No mandatory exports.
- ◆ No restriction on repatriation of royalty, dividend and interest.
- ◆ No trade balancing requirement, i.e. imports not exceeding exports.

## Major WTO Functions

- ❖ Administering WTO trade agreements
- ❖ Forum for trade negotiations
- ❖ Handling trade disputes
- ❖ Monitoring national trade policies
- ❖ Technical assistance and training for developing countries
- ❖ Cooperation with other international organizations

Institution	Headquarters	Year of Establishment
South Asian Association for Regional Cooperation (SAARC)	Kathmandu	1985
ASEAN	Bangkok	1967
BRICS	Shanghai	2001

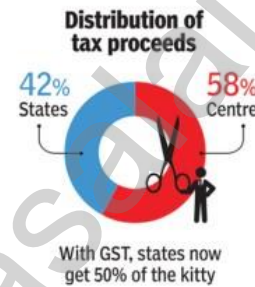
## Sources of Public Revenue



**Unbalanced budget is of two types:**

1. Surplus Budget
2. Deficit Budget

## HOW TAXES ARE SPLIT



◆ **Article 280** of the Constitution mandates the finance commission to recommend the distribution of the net proceeds of taxes between the Centre and the states every five years.

◆ **15th Finance Commission's recommendations on tax sharing between Centre and States are to kick in from April 2020**

**Nuclear waste:** The leftover radioactive materials, harmful and toxic chemicals affect human health. They are dumped beneath the earth to avoid any casualty.

**Ecology :** The relationship of living things to one another and their environment, or the study of such relationship.

**Eco System :** The interacting system of a biological community and its nonliving environmental surroundings.

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**Financial Planning :** Techniques of planning in which resources are allocated in terms of money

**Physical Planning :** Techniques of planning in which resources are allocated in terms of men, materials and machinery

**Perspective Planning :** Long term planning i.e. for a period of 15 years or more

There are two major types of statistics named as Descriptive Statistics and Inferential Statistics.

#### **Descriptive Statistics**

The branch of statistics devoted to the summarization and description of data is called Descriptive Statistics

#### **Inferential Statistics**

The branch of statistics concerned with using sample data to make an inference about a population of data is called Inferential Statistics.

#### **Methodology Of Econometrics**

Broadly speaking, traditional or classical econometric methodology consists of the following steps.

- 1) Statement of the theory or hypothesis
- 2) Specification of the mathematical model of the theory
- 3) Specification of the econometric model of the theory
- 4) Obtaining the data

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