Price Index Numbers.

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- A price index number shows the average percentage changes in the prices from the one point of time to another.

- The percentage change in the price of a single product from one point to another is founded by dividing its price at time by its price in time 0.

- Pt/P0: price relative of a commodity in relation to those two points of time.

Index Numbers

- An index number of the prices of a collection of products is the average of their price relatives.

- An index number is limited to the measure of changes in a magnitude between one situation to another.

- The two situations compared are in no way restricted, they may be two time periods or two situations in a special sense or two group of individual.

Index Numbers.

- Since index number measures changes they are expressed with one selected situation as 100.

- This is called time reference base of the series of index numbers.

- In an annual series for example the reference base is the year taken with the level of 100 for comparison.

- In another year the index number may be 126. This shows an increase of 26 % over these two years.

Index Numbers.

- In simple words Index Numbers are devises for measuring the net amount of change in a group of related variables over a period of time.

- Index Numbers may also be regarded as the tools for measuring differences between the price of commodities, the cost of living etc.

- These comparisons may be related to the different countries, different places or different periods at the same point of time so that we may have index numbers comparing the cost of living in different period or in different countries.

Steps in the construction of the index number.

- Selection of base year. This is the first step or problem in preparing the index numbers. The base year is defined as that year with reference to which the price changes in other years are compared and expressed as percentage. The base year should a normal year.

(2) Selection of commodities.

- The second problem in the construction of index numbers is the selection of the commodities.

- Since all commodities cannot be included, only representative commodities should be selected keeping in view the purpose and type of the index numbers.

(3) Collection of prices

- After selecting the commodities the next problem is regarding the collection of their prices.

- Form where the prices to be collected.

- Whether to choose wholesale prices or retail prices.

- Whether to include taxes in the prices or not.

(4) Selection of Average.

- Since the index numbers are, a specialized average, the fourth problem is to choose suitable average.

- Theoretically, geometric mean is the best for this purpose.

- But in practice, arithmetic mean is used because it is easier to follow.

(5) Selection of weights.

- Generally all the commodities included in the construction of index number are not of equal importance.

- Therefore if the index number are to be representative proper weights should be assigned to the commodities according to their relative importance.

(6) Purpose of index numbers.

- The most important consideration in the construction of the index numbers is the objective of the index number

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- All other problems or steps are to be viewed in the light of the purpose for which a particular index number is to be prepared.

(7) Selection of Method.

- The selection of a suitable method for the construction of index number is the final step

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- There are two method of computing the index numbers. (a) simple index numbers and (b) weighted index number.

Type of index numbers.

- Wholesale price index numbers

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- Retail price index numbers,

- Cost of living index numbers.

- Working class cost of living index numbers.

- Wage index numbers.

- Industrial index numbers.

Importance of Index Numbers.

- Index numbers measure changes in one variable or in a group of variables.

- They are useful in making comparisons with respects to different place or different period of time.

- They are helpful in simplifying the complex facts

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- They are helpful in forecasting about the future.

- They are very useful in academic as well as practical research.

Importance of Index Numbers.

- Index numbers are helpful in the measurement of value of money.

- Index numbers highlight changes in the cost of living in the country.

- They are also useful in providing information regarding production trends in different sectors of economy.

Importance Of Index Numbers.

- With the help of index numbers knowledge about the trade condition and trade trends can be obtained.

- They prove very useful to the governments in formulating as well as evaluating economic policies.

- Index numbers are useful in almost all the fields. They are especially important in economic field.

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THANK YOU