

SUMMARY

An index number is a measure of change in magnitude from one situation to another. The two situations may be two time periods, two regions of a country or two groups of individuals. For economic and business study index numbers may be broadly classified into three categories:

- (1) Price Index Numbers
- (2) Quantity Index Numbers
- (3) Value Index Numbers

Different authors have given different formulae of constructing index numbers by adopting different procedures of assigning weights to the commodities. These index numbers are:

- (1) Laspeyres Index Number
- (2) Paasche Index Number
- (3) Marshall-Edgeworth Index Number
- (4) Dorbis-Bowley Index Number
- (5) Fisher Index Number

These fixed base indices have some limitations. The consumption pattern of the people change, there may be new innovations and the relative importance of the commodities may also change. In view of these limitations the chain base index number has been constructed which measures the changes in the level of a phenomenon for any period with that of the immediately preceding period and the process is continued till the comparison is made with the required base period.

So in this last session of series of first unit of understanding International foreign exchange markets under International financial Management, we tried understanding two important theories: Purchasing power Parity and International fisher effect. While talking of purchasing power parity, we started with the origin of purchasing power parity, Absolute Purchasing power parity, relative purchasing power parity, Limitations of Purchasing power parity as recognized by Cassels and lastly cost parity. In the end the last theory we talked about the International fisher effect postulating direct proportionality relationship between two countries exchange rate and the nominal interest rate prevailing in the two countries at that point of time. I hope this session would have been useful to you in understanding more about the fundamentals of international financial management better. Thank you.