Frequently Asked Questions

1. What are the variables used in the index number techniques?
   Answer:
   In business, different groups of variables in the measurement of which index number techniques are commonly used are,
   1. Price,
   2. Quantity
   3. Value
   4. Business activity

2. What is a base year?
   Answer:
   The base period of an index number (also called the reference period) is the period against which comparisons are made. It may be a year, a month or a day.

3. Where is the cost of living index applied?
   Answer:
   The cost of living index has a major application in the calculation of dearness allowance so that real wage does not decrease; or in comparing the cost of living in, say, different regions. It is also used to measure changes in purchasing power of money.

4. What does the symbol P_0 indicate?
   Answer:
   The symbol P_0 indicates the price of the base year.

5. What does the symbol P_1 indicate?
   Answer:
   The symbol P_1 indicates the price of the current year.

6. How price is relative calculated?
   Answer:
   Price relative is calculated as the summation of current year price P_1 divided by the base year price P_0 multiplied by 100

7. What is the formula for calculating the cost of living index number by aggregate expenditure method?
   Answer:
   The formula for aggregate expenditure method cost of living index is equal to summation of P one q naught divided by summation P naught q naught into 100

8. What is the formula for calculating the cost of living index number by family budget method?
   Answer:
   According to family budget method, the cost of living index is equal to summation PV by summation V.

9. Why weighted Index numbers is constructed?
   Answer:
   The construction of index number is a conscious effort in which effort is taken to assign weights to each commodity according to their importance in the total phenomenon that the index is supposed to describe.

10. How do we calculate the laspeyers price index?
    Answer:
    In this method the weights are determined by quantities in the base period.P01=ΣP1q0/ΣP0q0 X100.

11. What is the use of Paasche's index number?
    Answer:
    The Paasche's method gives us the answer for the question "what would be the value of the given period list of goods when valued at base period prices?"

12. How do we calculate the Paasches index?
    Answer:
    In this method the price index is a weighted aggregative price index in which the weights are determined by the quantities in the given year. P01=ΣP1q1/ΣP0q1 x 100.

13. Why fisher's index number is called the ideal index number?
    Answer:
    The fisher's index number is called the ideal index number as it is based on the geometric mean which is theoretically considered to be the best average for constructing index numbers, it takes into account both current year an base year prices and quantities, it satisfies both the test of adequacy the time and factor reversal test and it is free from bias.

14. How is weighted average price of relative calculated?
    Answer:
    The weighted average price of relative is calculated as price index = ΣPV/ΣV.
    Where P stands for the price relative = (P1/P0) x 100, and v = P0q0 stands for value weights.

15. What is a time reversal test and factor reversal test?
    Answer:
    Time reversal test is a test to determine whether a given method will work both ways in time, forward and backward. The factor reversal test is another test of consistency suggested by Fisher; it holds that the product of a price index and the quantity index should be usual to the corresponding value index.