Frequently Asked Questions

1. What are Index numbers?

Answer:

Index numbers are one of the most widely used statistical devices to feel the pulse of the economy, indicators of inflationary or deflationary tendencies. It is a single figure which reveals the change in the related variables.

2. Why index number is called specialized averages?

Answer:

Index numbers are briefly called as indices and are specialized averages, which measures the net changes in a group of related variables over a period of time and expressed numerically in relative terms, that is, percentages.

3. Which are the areas where index numbers can be constructed?

Answer:

Index numbers may be constructed for studying changes in any variable, such as intelligence, aptitude, efficiency, production, etc. but the time series of prices is perhaps most frequently used.

4. What are the various uses of price index?

Answer:

There are various uses of price index numbers. The wholesale price index number indicates the price changes taking place in wholesale markets. On the other hand, the consumer price index number or the cost of living index number tells us about the changes in the prices faced by an individual consumer.

5. What is purchasing power of money?

Answer:

The reciprocal of a general price index is known as purchasing power of money with reference to the base period.

6. 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 different regions. It is also used to measure changes in purchasing power of money.

7. What are the problems involved in construction of Index numbers?

Answer:

A variety of problems are involved in the construction of the index number defining the purpose, nature and scope of an index number, selection of items and their numbers, price quotation, selection of suitable weights, selection of base year and choice of suitable average.

8. What are the methods of constructing the index numbers?

Answer:

The index numbers can be constructed through the following methods: Un-weighted index numbers and weighted index numbers. The un-weighted index numbers are further classified as simple aggregative method and simple average of relative method. The weighted index numbers are classified as weighted aggregative methods and weighted average of relative methods.

9. What is a price index number?

Answer:

Price index numbers measure the relative changes in prices of a commodities between two periods. Prices can be either retail or wholesale.

10. What is a quantity index number?

Answer:

Quantity index numbers are considered to measure changes in the physical quantity of goods produced, consumed or sold of an item or a group of items.

11. Which are the other relative measures used to calculate the index numbers?

Answer:

The index number can be calculated for other relative measures like quantity, volume of consumption, exports, etc. then the formula for calculation will be based on the relative measures of the current year and base year.

12. What does the symbol P₀ indicate?

Answer:

The symbol P_0 indicates the price of the base year.

13. What does the symbol P₁ indicate?

Answer:

The symbol P_1 indicates the price of the current year.

14. How price relative is 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.

15. What are the shortcomings of simple average of relative method?

Answer:

Shortcomings of simple average of relative method are the unit of prices of commodities which will affect the price index number and importance of the commodities in questions is ignored.