Summary

- Index numbers are one of the most widely used statistical devices used 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. Thus, index number performs the function similar to that of an average and hence is rightly called as a specialized type of average

- 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

- Many government and private agencies are engaged in computation of index numbers or indices as they are often required for the purpose of forecasting business and economic conditions, providing general information, etc.

- It is not always the case that the comparison should be over time, but most common types of index numbers measure changes over time. Similarly, 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. Our subsequent discussion on index numbers will therefore be made with special reference to prices of commodities

- The principles of construction are, however, quite general in nature, and may thus be applied to other areas of interest. 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. Its major application is 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. The reciprocal of a general price index is known as purchasing power of money with reference to the base period