Frequently Asked Questions

1. Why weighted Index numbers are 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.

2. What is disadvantage of unweighted index?

Answer: The unweighted index assigns equal importance to all the items included in the index and as such they are in reality weighted but weights being implicit there is a possibility of getting different results by changing the implicit weights. Hence, the results will be far from reality in most of the cases.

3. What are the advantages of weighted index?

Answer: Under the weighted index method, we weigh the price of each commodity by a suitable factor often taken as the quantity or the value weight sold during the base year or the given year or the average of some years. The choice of one or the other will depend on the importance we want to give a period beside the quantity used. The indicates are usually calculated in percentages.

4. What are the types of weighted index numbers?

Answer: Weighted index numbers are of two types - weighted aggregative indices and weighted average relatives.

5. What is weighted aggregative indices?

Answer; Weighted aggregative indices are of the simple aggregative type with the fundamental difference that weights are assigned to the various items included in various methods of assigning weights and consequently a large number of the formulae for constructing index numbers have been devised.

6. What is weighted average relative?

Answer: Weighted average relative is a method for calculation of price index using the measures of central tendency. We can use both the geometric mean and arithmetic mean.

7. Which are the important devise for calculating the index numbers?

Answer: Among the large number of the formulae for constructing index numbers being devised some of the more important ones are:

- Laspeyer's method
- Paasche's method
- Dorbish and Bowley's method
- Fisher's ideal method
- Marshall-Edgeworth's method
- Kelly's method

8. What is the use of Laspeyer's Index number?

Answer: Laspeyer's index attempts to answer the question "what is the change in the aggregate value of the base period list of good when valued at a given period prices?"

9. How do we calculate the Laspeyer's price index?

Answer: In this method the weights are determined by quantities in the base period.P01= Σ P1q0/ Σ P0q0 X100

10. What is the disadvantage of the Laspeyer's index?

Answer: The disadvantage of Laspeyer's index numbers are that it does not take into consideration the consumption pattern, has an upward bias as the consumption of items decreases when the prices increase. Similarly, when prices decline the consumers shift their purchases to those items, which decline the most.

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. $P01=\Sigma P1q1/\Sigma P0q1 \times 100$.

13. What is the disadvantage of Paasche's index?

Answer: The difficulty in computing the Paasche index in practice is that revised weights or quantities must be computed each year or each period, adding the data collection expenses in the preparation of the index, hence this method is not used frequently in practice where the number commodities is large.

14. What is quantity index?

Answer: The quantity or value index numbers, measure the physical volume of production, construction or employment.

15. What is value index?

Answer: Value equals price multiplied by quantity. Thus, a value index equals the total sum of the value of a given year divided by the sum of the values of the base year.