

Frequently Asked Questions

1. Why Fisher's index number is called as the ideal index number?

Answer: The Fisher's index number is called as the ideal index number because 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 and base year prices and quantities, it satisfies both the test of adequacy the time and factor reversal test and it is free from bias.

2. How is weighted average price of relative calculated?

Answer: The weighted average price of relative is calculated as $\text{price index} = \frac{\sum PV}{\sum V}$
Where, P stands for the price relative = $(P_1/P_0) \times 100$ and $v = P_0q_0$ stands for value weights.

3. What are the various ways of changing the base years?

Answer: Depending on the needs, the base year can be changed as chain base index, base shifting, splicing and deflating.

4. What is chain base index numbers?

Answer: A chain index is the figure for each year first expressed as a percentage of the preceding year. These percentages are then chained together by successive multiplication to form a chain index.

5. What do we mean by link relative?

Answer: A series of index numbers are computed for each year using the preceding year as the base year. This index number calculated after taking the preceding year as base year is called the link relatives.

6. What is difference between the fixed base and chain base method?

Answer: The fixed base and the chain base method are different. The fixed base index uses the original data while the chain base index uses the link relatives.

7. Can we convert the chain base index to a fixed base index?

Answer: Fixed base index numbers can be obtained from the chain base index numbers by using the following formula

$$\text{Current year fixed base index} = \text{current year chain base index} \times \text{previous year fixed base index} / 100$$

8. What is the technique of base shifting?

Answer: Base shifting refers to the preparing of a new or more recent base period than the original one. Change of base year or reference period is known as shifting the base.

9. When is shifting base necessary?

Answer: It is required to compare series of index numbers with different base periods, when the base period is too old or too distant from the current period to make meaningful comparisons.

10. How is base shifting done?

Answer: The base shifting is done by calculating $\text{Shifted price index} = \text{original price index} / \text{price index for the year to which it has to be shifted} \times 100$.

11. What is splicing?

Answer: Splicing of index numbers means combining two or more series of overlapping index numbers to obtain a single index number on a common base.

12. What is forward splicing?

Answer: In this method the old series, say A is brought forward to splice it with new series, say B by multiplying the various index numbers of the old series by the index number of the last year in the old series and divide the result so obtained by 100. This splicing is called forward splicing.

13. What is backward splicing?

Answer: In this method, the new series is pushed backward by dividing the various index numbers of the old series by the index number of the year in which change takes place and the result so obtained is multiplied by 100. This splicing procedure is known as backward splicing.

14. What does deflating mean?

Answer: Deflating means adjusting, correcting or reducing a value, which is inflated. It is a technique of converting a series of value calculated at current prices into constant prices of a given year. This is a process of removing the effect of price changes from the current money values.

15. Why is deflating adopted?

Answer: Deflating is desirable in the case of an economy, which has inflationary trends because in such an economy, the increase in the prices of commodities over a period of year means a fall in their real incomes. Thus, it becomes necessary to adjust or correct the nominal wages in accordance with the rise in the corresponding price index to arrive at real income.