

## Frequently Asked Questions

1. What is cost of living index number?

**Answer:** The cost of living index is also known as the consumer price index number. These are generally intended to represent the average change over time in the prices paid by the ultimate consumer of a specified basket of goods and services.

2. What is the need for cost of living index number?

**Answer:** The need for constructing consumer price indices arises because the general index numbers fail to give an exact idea of the effect of the change in the general price level on the cost of living of different classes of people.

3. How does the consumer price index help us?

**Answer:** The consumer price index helps us in determining the effect of rise and fall in prices on different classes of consumers living in different areas. The construction of such an index is of great significance because very often, the demand for a higher wage is based on the cost of living index and the wages and salaries in most countries are adjusted in accordance with the consumer price index.

4. What is measured by the cost living index?

**Answer:** The cost of living index object is to find out how much the consumers of a particular class have to pay more for a certain basket full of goods and services in a given period compared to the base period

5. How is the actual cost calculated?

**Answer:** Actual costs depend not only on the rise in prices as compared with the base period, but also on the actual cost of living for the base period, which will vary for different regions and for different class of population.

6. What is the utility of CPI?

**Answer:** The most common use of these indices is in wage negotiations and wage contracts. Automatic adjustments of wage or dearness allowance the index numbers are used for wage policy, price policy, rent control, taxation and general economic policies, measure changing purchasing of the currency, real income, etc

7. What are the steps involved in the construction of the CPI?

**Answer:** The following are the steps in constructing a consumer price index: Decision about the class of people for whom the index is meant, conducting family budget enquiry, obtaining price quotations

8. What is the object of conducting a family budget enquiry?

**Answer:** The object of conducting a family budget enquiry is to determine the amount that an average family of the group included in the index spends on different items of consumption.

9. How is the consumption pattern calculated?

**Answer:** While conducting an enquiry, the quantities of commodities consumed and their prices are taken into account. The consumption pattern can thus be easily ascertained.

10. How is the enquiry conducted?

**Answer:** The enquiry is conducted on a random basis. By applying lottery method some families are selected from the total number and their family budgets are scrutinized in detail.

11. How is price quotation obtained?

**Answer:** Price quotation should be obtained from the localities in which the class of people concerned reside or from where they usually make their purchases.

12. What are the principles recommended in the collection of retail data?

**Answer:**

- The retail price should relate to a fixed list of items and for each item, the quality should be fixed by means of suitable specifications.
- Retail prices should be those actually charged to consumer for cash sales
- Discount should be taken into account if it is automatically given to all customers
- In a period of price control or rationing, where illegal prices are charged openly, such prices should be taken into account along with the controlled prices

13. What is the difficulty in practicing the principles?

**Answer:** The most difficult problem in practice is to follow principle is that the problem of keeping the weights assigned and qualities of the basket of goods and services constant with a view to ensuring that only the effect of price change is measured.

14. What is the important component in the cost of living indices?

**Answer:** Prices form the most important component of cost of living indices considerable attention has to be paid to the methods of price collection and to the price collection personnel.

15. How are prices collected?

**Answer:** Prices are collected usually by special agents, through mailed questionnaire, or in some cases through published price lists. The greatest reliance can be placed on the price collection through special agents as they visit the retail outlets selected and collect the prices from them.