How are the index number used to display economics or financial data identify som...

Business

Use of index number in displaying economics or financial data A price index is used as a measure of the proportionate or percentage changes in a given set of prices over a set period. Similarly, a consumer price index measures any changes in the prices of goods and services that a household consumes at a particular time. Such changes affect the real purchasing power of consumers' incomes and welfare (Diewert 2007, p. 2). It is important to note that the prices of different goods and services do not change at the same rate over time; hence, a price index can only reflect their average movement.

The price index is assigned a value of unity, or even 100, in some reference period, and the value of other index for other given periods of time are intended to indicate the average proportionate or even the percentage change in price from this price reference period. For example if a given product is costing thrice as much as in 1990 as it did in 1980, its index could be taken to be 300 times relative to 1980.

Price indices can be used to measure differences in price levels between different regions, countries and cities at the same point in time. For example, the Bic Mac price have been noted to occur in China at 51% reduction from U. S. prices. Considering such indices, it can be possible to forecast currency values. Based on this illustration China currency is undervalued and provides a currency investment opportunity.

The price indices have three important characteristics. They are published frequently, usually every month but at times every quarter. They are available quickly, about two weeks after the end of the month or quarter. They are usually not revised, and they are closely monitored hence attracts a lot of publicity (Moulton et al, 2002).

As a result of continuous publication, the price index provides timely information about the rate of inflation, and at times they are used to provide a wide variety of purposes, in addition to indexing wages. For example, consumer price indices are used to index other payments such as interest payment or rents, and at times the price of bonds. They are also used to provide index pensions and social security benefits.

There are different kinds of index of numbers that can be used. Most economists and compliers of consumer price index agree that the index formula to be used should belong to a small class of indices called superlative indices (Turvey, 2004). This superlative index is expected to provide an approximation to a cost of living index. The main feature of superlative index is that it treats both periods being compared systematically. Different superlative indices tend to have same properties, thus yielding similar results and behavior in very similar way. Example of one very popular price index is the low price index.

The lower price index defines the index as a percentage change, between periods compared, in total cost of purchasing a given set of quantities generally described as the " basket". Any set of quantities can serve as the basket. The basket is not restricted to the quantities purchased in one or the other of the two period compared or indeed any actual period of time. The quantities can be arithmetic or the geometric averages of the quantities in the two periods.

References List

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