

INDEX NUMBERS

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LIMITATIONS OF INDEX NUMBERS:

- **International Comparison is not possible:** International comparisons are not possible on the basis of Index Numbers as different countries have different basis of index numbers . Due to differences in the unit of currency and also difference in the composition of production and consumption across the different countries , index numbers fail to facilitate international comparisons.
- **Limited use of Index Numbers:** Index Numbers have limited uses because they are constructed with certain specific purpose and they can not give information about other facts. For example, Index Number prepared for the study of standard of living of industrial workers can not give knowledge about the standard of living of agricultural labourers.

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- **Approximate Indicators:** Index Numbers point out the general trend. They simply present approximate view of the problem under study, so whatever is pointed by Index Numbers , should not be taken as granted. It should be viewed as an approximate.
- **Difference of Time:** With the passage of time , it is difficult to make comparisons of Index Numbers . With the changing times , consumers habits,tastes,etc.,also undergo a change . Consequently, Index Numbers constructed on the basis of old consumption pattern can not be compared with the Index Numbers constructed on the basis of new consumption pattern.

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- **Based on Samples:** Index numbers are generally based on samples , because it is not possible to take into account each and every item in the construction of the index numbers.
- Index number generally do not take into account changes in the quality of products.
- Index Numbers suffer from the limitations of the methods used for their construction . Each methods has its own merits and limitations . No particular method is suitable for all circumstances.

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- **Manipulation possible:** Index Numbers can be manipulated in such a manner as to draw desired conclusions. The selection of a base year , commodities, prices,etc.,may help a person to prove his viewpoint.
- **Not completely True:** Index numbers are not fully true. For example, one can only make an estimate of change in the value of money with the help of index numbers. The Index Numbers simply indicate arithmetical tendency of the temporal changes in the variable.
- There are no scientific techniques of according weightage to different items included in the Index Numbers.
- To be continued.....