

INDEX NUMBERS

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USES OF INDEX NUMBERS:

- **Index Numbers reveals trends and tendencies:**

Index Numbers are very useful in studying the trends and tendency of a series spread over a period of time. With the help of Index Numbers, it is easy to find out the trends of exports, imports, balance of payments, industrial production, prices, national income and a variety of other phenomena. As a measure of average change, the Index Numbers are very useful in forecasting future trends. With the help of Index Numbers of prices, demand, wage, income, etc. A business executive is in a better position to take decisions about whether a new product should be launched or whether there is scope for exploring new markets or whether the existing pricing and production policies need a change. By examining the Index Numbers of Wholesale prices, agricultural production, industrial production, sales etc., one can draw a conclusion as to whether there is an upward tendency or downward tendency.

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- **Help in policy formulation:** Index Numbers help us in studying trends of various phenomena and these trends and tendencies are the bases on which many policy decision are taken. Some of the indices and their usefulness in policies are summarised bellow:

INDEX	USEFULNESS IN POLICY
Cost of living Index	Dearness Allowance Policy
Consumer Price Index	Dearness Allowance Policy
Inflation Index	Fiscal and Monetary Policy
Agricultural Production Index	Agricultural Policy
Industrial Production Index	Industrial Production
Imports and Exports Indices	Export- Import Policy
Literacy Index	Education Policy
Health Index	Health policy

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- **Index Numbers are useful in deflating:** Deflating is the process of eliminating the effect of changes in price level . Index Numbers are useful in converting the nominal wages into real wages , nominal income into real income.
- **Helps in measuring the Purchasing Power of Money:** Index Numbers are helpful in finding out the intrinsic worth of money as contrasted with its nominal worth. Changes in purchasing power of money may be known from time to time with the help of Index Numbers. This helps in determining the wage policy of a country.

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- Index Numbers are useful for forecasting future economic activities.
- **Facilitates comparative study:** To make comparisons with respect to time and place, especially where units are different Index Numbers prove very useful. For example, change in Industrial production can be compared with change in Agricultural production with the help of Index Numbers.
- **Useful to Business community:** Index Numbers are also useful to business community. The businessmen come to know about changes in prices and production with the help of index numbers and determine their trade policies accordingly. Index numbers of prices provide them right direction to their trade.

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- **Knowledge of the change in Standard of living:** Index Numbers help to ascertain the living standards of people. Money income may increase but if index numbers show a decrease in the value of money , standard of living may even decline . Thus, Index numbers indicate change in real income.
- **Act as economic barometer:** Just as a barometer measures the atmospheric pressure, Index Numbers are very helpful in measuring the pressure of economic and business activities on the economy of a country .Index Numbers measure the pulse of an economy and act as barometers to find the ups and downs in the general economic condition of a country. Indices of prices, output, foreign exchange,etc.,throw light on the variation in the level of business activity of a country and these indices can be combined into a composite index which could act as an economic barometer.
- To be continued.....