

Uses of Index number : There is hardly any field of quantitative measurement where index numbers are not constructed, they are used in almost all sciences - natural, social and physical. The main uses of index numbers (IN) are summarised below -

① IN as Eco. barometers : IN are indispensable tools for the management personnel of any govt. organisation or individual business concern and in business planning and formulation of executive decisions. The indices of prices, output, volume of trade, import and exports, bank deposit, foreign exchange, bank reserves, etc. throw light on the nature of and variation in the general eco. and business activity of the country. From the careful study of ^{these} indices business leaders or govt. may keep pace with changing eco. and business conditions and can make better decision. A careful IN can give us a fairly good appraisal of the general trade, eco. develop[^] and business activity of the country.

Like barometers which are used in Physics and chemistry to measure atmospheric pressure, IN are rightly termed as 'eco. barometers of eco. activity' which measures the pressure of eco. and business behaviour.

② IN reveals trends and tendencies : Since the IN study the relative changes in the level of a phenomenon at dif^r period of time, they are specially useful for the study of general trend for a group of phenomenon in a time series data.

For example, by examining the IN of industrial prodⁿ business activity etc. for the last few years we can conclude about the trend of prodⁿ and business activity, as a measure of average change in extensive group, the IN can be used to forecast future events. By examining the trend of the phenomenon under study we can draw very important conclusions as to how much change is taking place due to the effect of seasonality, cyclical forces, irregular forces etc.

③ IN help in formulating decisions and policies:

IN of the data relating to prices, production, profits imports and exports, personnel and financial matters are indispensable for any organisation in efficient planning and formulation of executive decisions. For example, while deciding the increase in dearness allowances of the employees, the employers have to depend primarily upon the cost of living IN. The excise duty on the prodⁿ or sale of a com. is regulated acc. to the IN of the com^o of com. from time to time. Therefore, IN provides some guidelines that one can use in making decisions.

④ IN are used for deflation:

IN are highly useful in deflation i.e., they are used to adjust the original data for price changes, or to adjust wages for cost of living changes and thus transformed nominal wage into real wages. For example, suppose that the cost of living index for any year, say 1999 for a particular class of people with 1990 as base year is 150. If a

person, belonging to that class gets Rs. 300 in 1950, then in order to maintain the same standard of living in 1990 his salary in 1990 should be $\frac{150}{100} \times 300 = \text{Rs. } 450$

In other words, if a person gets Rs. 450 in 1990, then his real wage will $\frac{450}{150} \times 100 = \text{Rs. } 300$ i.e., the technique of obtaining real wages from the given nominal wages can be used to find real income from inflated money income, real sales from nominal sales and so on by taking into account appropriate

IN.