Laspeyre's Index Vs. Paache's Index: Laspeyre's price index is based on the assumption that the quantities consume in the base year and the current year are same, an assumption which is not true in general. If the consᵗ of some of the commodities or items decreases in the current year due to the rise in their prices or due to the changes in their habits, taste and customs of the people, then Laspeyre's index which is based on base year quantities as weights gives relatively more weightage for such commodities (whose prices rise sharply) and consequently the numerator is relatively larger.

Hence Laspeyre's index is expected have an 'upward bias' as it over-estimates the true value. Similarly, if the consumption of certain commodities increases in the current year due to decrease in their prices (or change in the tastes, habits and customs of the people), then Paache's index which uses current year quantities as weights give ~~less~~ more weightage to such commodities (whose prices decline much). Accardingly Paache's index has a 'downward bias and is expected to under-estimate the true value. However, it should not be inferred that Laspeyre's index must be larger than Paache's index always. The cond^n under which Laaspegre's index is greater than, equal to or, less than Paache's index have been given. In this context it may be worthwhile to quate the following words of karmal.

"If the prices of all goods changes in the same ratio then Laspeyre's and Paache's price index numbers will be equal, for then the weighting system is irrevalent; or if the quantities of all the goods change in the same ratio, they will be equal for then the two weighting systems are the same relatively."