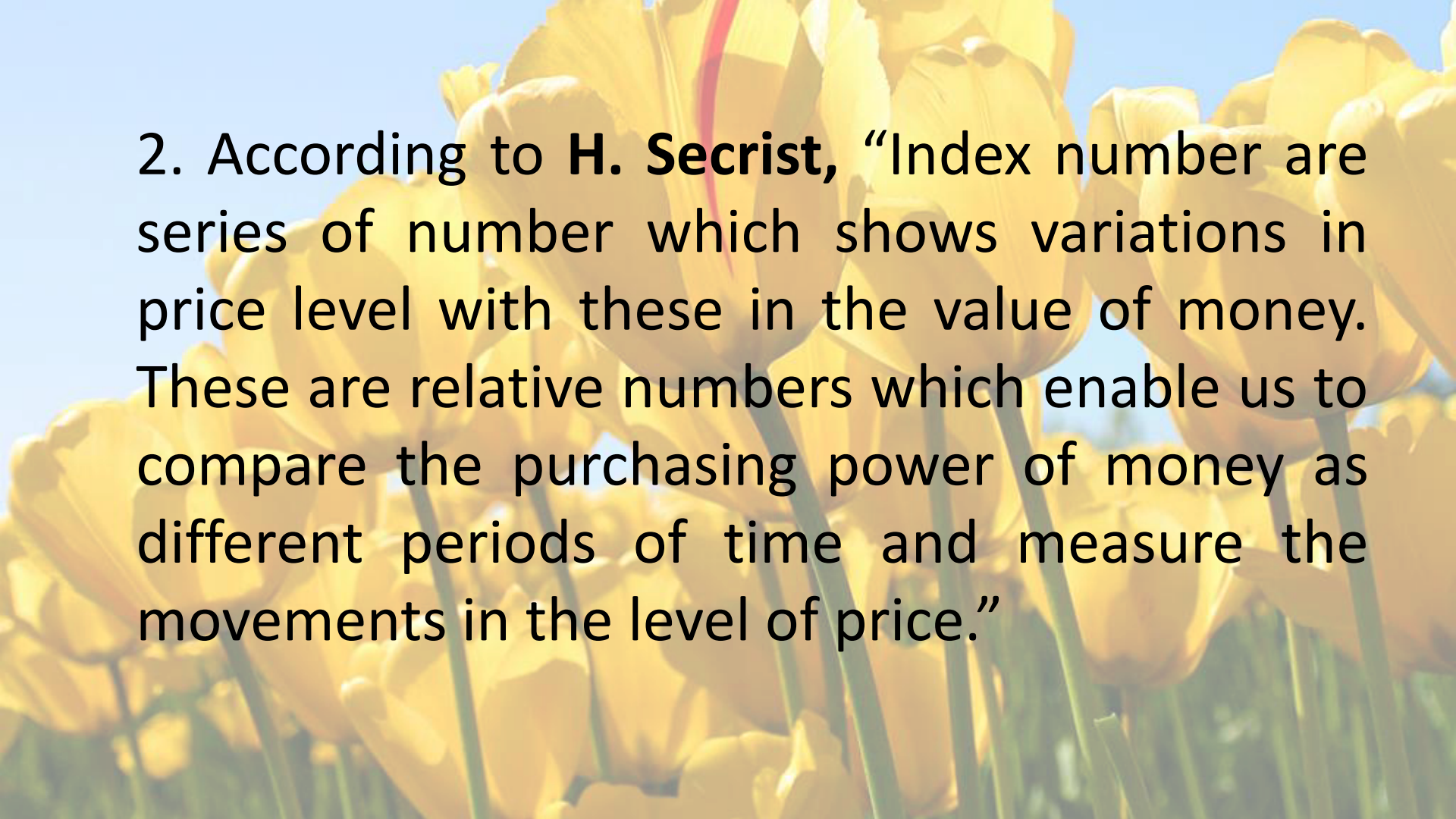# VALUE OF MONEY
AND
INDEX NUMBER

MEANING OF VALUE OF MONEY

In the words of Crowther "The value of money is what is will buy." In other words the value of money depends on its purchasing power. In this connection the other definition of Robertson may also be referred. As per this definition- **"The value of money means the amount or things in general which will be given in exchange for a unit money." In** this way the value of the money depends on its purchasing power either of a commodity or other services. It is also evident that the value of money and value of commodity has opposite relationship. This means when there is an increase in the value of commodity, the value of money will decrease.
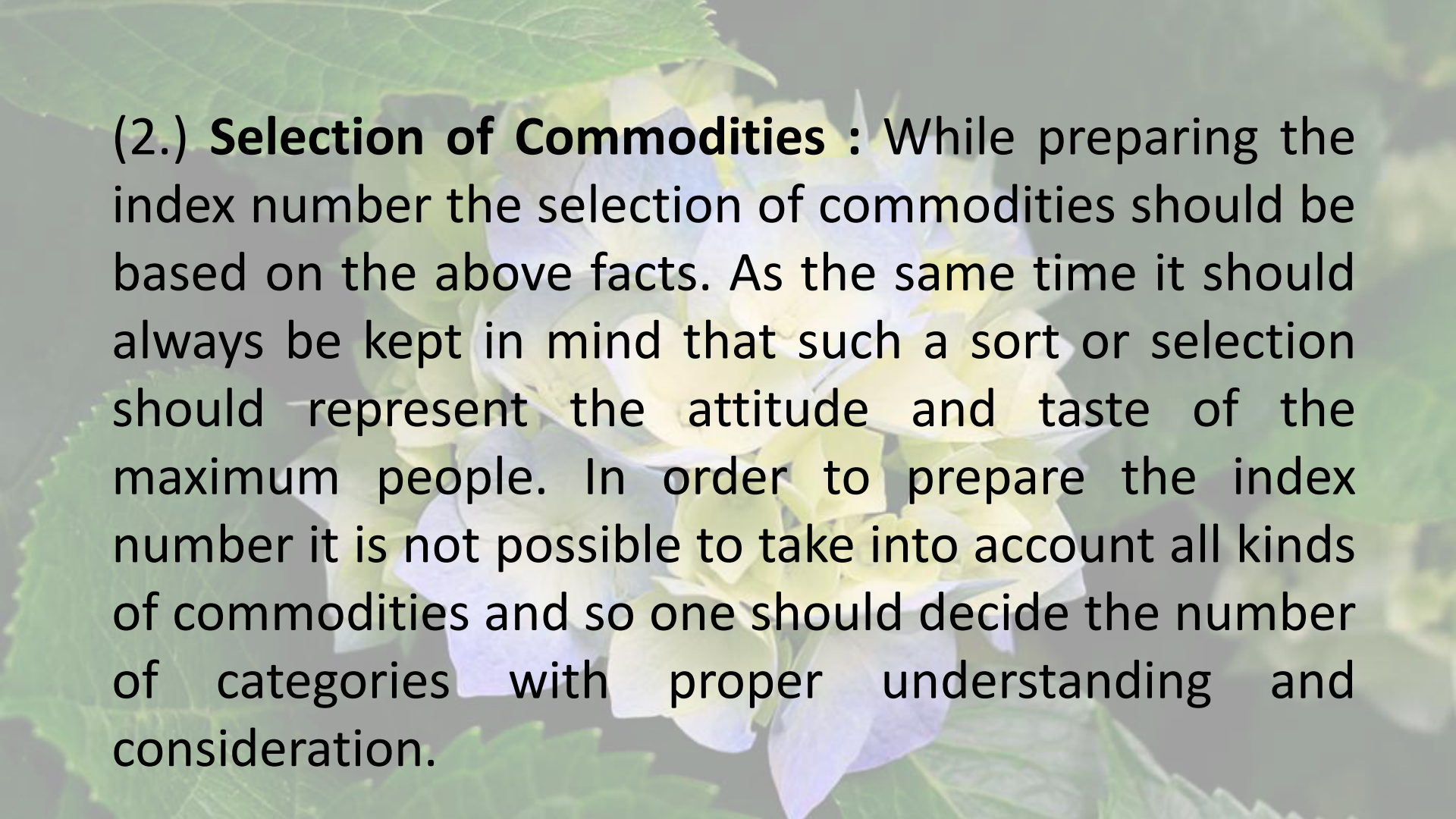
MEANING OF INDEX NUMBER

1. According to **Prof. Chandler**, "The index number of prices is a figure showing the height of averages prices at one time relative to their height at some other time that is taken as base period."

2. According to **H. Secrist,** "Index number are series of number which shows variations in price level with these in the value of money. These are relative numbers which enable us to compare the purchasing power of money as different periods of time and measure the movements in the level of price."

(1.) **Selection of the Base Year :** The base year means the particular year by which one studies the price level of one year with others. So, one should keep earnest awareness while selecting the base year. In fact the base year ought to be such a year which should be common or ordinary from all points of view. This means the base year should remain aloof from the uncommon happenings like warfare, flood, political upheavals and famine as well as serious drought. In this connection caution should be taken that the base selected should not be repeated for other years.

(2.) **Selection of Commodities :** While preparing the index number the selection of commodities should be based on the above facts. As the same time it should always be kept in mind that such a sort or selection should represent the attitude and taste of the maximum people. In order to prepare the index number it is not possible to take into account all kinds of commodities and so one should decide the number of categories with proper understanding and consideration.

(3.) **Selection of Prices :** The selection of the prices of goods is also an important factor to prepare the index number. We know that there are two kinds of values of commodity. First, the retail price and second the wholesale value. It is easy to make selection of the wholesale value and there is usually as uniformity in the different sphere. But there are variations in determining the retail price due to variations in the place and time. So, in order to prepare the index number, usually the wholesale value is taking into consideration. Apart from this, while selecting the values one should also take care of its objects. If the cost of living is to be determined while preparing the index number the consideration of retail value is relatively more proper.

(4.) **To Represent Price in Percentages :** While preparing the index number the value of the representative commodities is expressed in terms of percentage. So, the value of every representative commodity of the base year is accepted as Rs. 100 only and according to this the value of the commodity of the index year is shown in terms of percentage.

(5) To find Out the Average: The way of knowing the average is by adding the relatives prices of the last two years separately and then the number of commodity is divided so as to know the average. If the average price is more than the average price in the base year then we can say that there has been an increase in the price level. On the other hand, if the situation appears to be opposite, then we can say that there has been a fall in the price level.

SIMPLE INDEX NUMBER

Commodities	Base year 2007		Current year 2016	
	Price (in Rs)		Price (in Rs)	
Rice (in quintal)	120	100	150	125
Wheat (in quintal)	110	100	165	150
Sugar (in quintal)	150	100	180	120
Pulse (in quintal)	200	100	200	100
Oil (in kg)	40	100	60	150
Ghee (in kg)	60	100	45	75
Clothe (in m)	10	100	20	200
Vanaspati (in kg)	40	100	80	200
		800		1120
		800/8=100		1120/8=140