

Value Of Money

Limitations:

(iv)Measure Sectional Price Level Only:-

Index numbers measure only changes in the sectional price-levels. An index number, therefore, prepared for a particular purpose, may not be useful for another. An index number that helps us to study the economic conditions of mill-hands or railway coolies will be useless for a study of the conditions of college lecturers.

An entirely different set of commodities will have to be selected. Different people use different things and hold different assets. Therefore, different classes of people are affected differently by a given change in the price-level. Hence, the same index numbers cannot throw light on the effects of a price change on all sections of society.

(v) Weighting Changes Result:

One set of weights may yield quite a different result from another, and weighting is all arbitrary.

Conclusion:

We may conclude in the words of Coulborn who observes, “No general price-level is in fact compiled in this way because the practical difficulties of collecting the

various prices and assessing weights strictly appropriate to the base year, and approximately relevant to the subsequent ones, prove to be difficulties which are insuperable in practice”