

CHAPTER II

EXTENT OF MONEY FLUCTUATION

THE INDEX NUMBER

WE have seen that, in spite of the popular belief to the contrary, the dollar or franc, or other monetary unit, unlike other units of measure, is very far from constant. But how can we tell when the value of the dollar has changed and how much it has changed? By what means can we measure our money in terms of *real* value? The answer is, by means of Index Numbers or, for short, Indexes.

An Index is a figure which shows the average percentage change in the prices of a number of representative goods from one point of time to another.

Suppose we start with a dollar's worth of goods in 1913, a market basket containing all sorts of representative goods—bread, butter, eggs, milk, cloth and so on, in the proportions