

Table of contents (complete)

1	General introduction and elementary price index theory	1
1.1	Fundamental principles of price statistics and price indices	1
a)	The scope and structure of the book	1
b)	The concept of a price index	4
c)	Objectives and methodological principles of price statistics, the concept of deflation	6
d)	Simple comparisons (a single commodity)	10
e)	Aggregative comparisons (two or more commodities) and unit values	15
1.2	Unweighted indices	17
a)	Dutot's index and Drobisch's unit value index	18
b)	Carli's index formula	21
c)	Commensurability and time reversal test, choice of the type of average in aggregating price quotations	21
c)	Stochastic and aggregative approach to index theory	26
1.3	Index formulas of Laspeyres and Paasche	27
a)	Price indices, dual interpretation	27
b)	Price indices and quantity indices	30
c)	Asymmetry in the interpretation of the Laspeyres and Paasche formula	33
d)	Theorem of Ladislaus von Bortkiewicz concerning the relationship between Paasche and Laspeyres formulas	37
e)	Critique of the Laspeyres index and the principle of "pure price comparison" by the US-Senate Advisory Commission (Boskin Commission, BC)	40
Digression:	A linear approximation to Jevons index (hybrid index, part contributed by Jens Mehrhoff)	45
2	Approaches in index theory	47
2.1	Outline of index theories or "approaches"	47
a)	Formal and economic theory of index numbers	47
b)	Constructive approaches	49
2.2	Irving Fisher's approach and reversal tests	52
a)	Fisher's systematic search for formulas	53
b)	Generalization of means	59
c)	Fisher's reversal tests, "crossing" and "rectifying" of formulas	63
d)	Digression: a weak variant of the time reversal test	71
e)	Fisher's philosophy in evaluating formulas by reversal tests	72
f)	The meaning and significance of Fisher's circular test	74
g)	A critique of circularity and time reversibility (Pfouts)	76
h)	Some weak versions of the circular test, the base invariance test and base test	77
2.3	The stochastic approach in price index theory	78
a)	Objectives of the stochastic approach	78
b)	Generalization of means	59
b)	Applications: some simple regression equation models for index formulas	81
c)	Some questions concerning the general programme of the stochastic approach	86
2.4	Elements of the economic theory of index numbers	90
a)	Definition of the "true cost of living index" (COLI), introduction of the utility concept	91

b)	Upper and lower bounds for the COLI provided by the Laspeyres and-Paasche price index formula	97
c)	Homothetic" preferences and the "unit cost" function	99
d)	Example: the logarithmic Laspeyres index as an "exact" index function	101
e)	The notion of "exact" and "superlative" index functions (cost of living indices)	106
f)	Conditional COLIs and the many households case (social COLI)	115
g)	The quantity index corresponding to the COLI as a price index	120
h)	Some extensions and some more criticisms of the COLI reasoning	122
2.5	Chain indices and Divisia's approach, general introduction	132
a)	Some really necessary terminological distinctions	132
b)	Weights in the chain approach	138
c)	Divisia index and its relation to chain indices	141
d)	Discrete time approximations and weights in Divisia's approach	146
2.6	Additive models, Stuvél's and Banerjee's index formulas	149
a)	Additive decomposition of the value difference	149
b)	Properties of Stuvél's formulas	151
c)	Alternative ways of deriving Stuvél's index formulas	153
d)	Generalization of Stuvél's index formulas	156
e)	Stuvél's approach and interpretations of price index formulas	158
f)	Banerjee's factorial approach in index theory	159
g)	Some comments on Banerjee's approach	163
3	Axioms and more index formulas	165
3.1	The axiomatic approach, some theorems and fundamental axioms	165
a)	Uses of "axioms" and axiomatic systems	165
b)	How to prove consistency and independence of a system of axioms?	168
c)	Quantum theory of index formulas	169
d)	A tentative list and grouping of axioms	170
e)	First considerations concerning the importance of axioms/test and the time reversal test	174
f)	Comments on the meaning and significance of some basic axioms I: determinateness, commensurability and dimensionality	175
g)	Comments on the meaning and significance of some basic axioms II: identity, a first look at monotonicity, and proportionality	176
h)	Logical relations among the most fundamental axioms	179
i)	A tentative ranking of axioms in terms of importance	180
j)	First example of uniqueness theorems and an inconsistency theorem	183
3.2	Fundamental axioms and their interpretation	185
a)	The meaning of strict and weak monotonicity	185
b)	Additivity and multiplicativity as special cases of strict monotonicity	190
c)	Generalization of Bortkiewicz's theorem for additive indices	194
d)	Mean value property (mean value test for price relatives)	196
e)	Relations between monotonicity, proportionality and mean value property	197
f)	The meaning of linear homogeneity	199
g)	Linear homogeneity and proportionality	200
h)	Linear homogeneity, monotonicity and mean value property	203
i)	Proportionality with respect to quantity indices, the "value index preserving test"	205
j)	"Value dependence test", another uniqueness theorem for Fisher's ideal index	206
k)	Some new tests in the tradition of Fisher's reversal tests: Partial reversals & additional uniqueness theorems concerning Fisher's ideal index	207

l)	Some weak versions of the circular test, and inconsistencies between some of Fisher's reversal tests and the circular test	213
3.3	Systems of axioms	216
a)	Irving Fisher's system of axioms (tests)	216
b)	A system of minimum requirements of an index by Marco Martini	219
c)	Two systems of axioms established by Eichhorn and Voeller	220
d)	Combinations of index formulas and transformations of data vectors	223
e)	Some additional axiomatic systems of B. Olt and final remarks on the choice between systems of axioms	224
3.4	Log-change index numbers I: Cobb-Douglas- and Törnqvist-index	226
a)	Growth rates, log changes, and new index formulas on the basis of log changes	226
b)	Cobb Douglas index P^{CD} , constant weights and the circular test	229
c)	The circular test and a characterization (uniqueness theorem) of P^{CD}	234
d)	The Törnqvist index, an "unbiased" index formula in a system of six indices	236
e)	Quantitative relations between six indices	241
f)	Three unbiased and superlative indices	241
3.5	Log-change index numbers II: Vartia's index formulas	243
a)	Aggregation of log changes and the logarithmic mean	243
b)	The Vartia-I index (P^{V1})	246
c)	The Vartia-II index (P^{V2})	247
d)	Properties of Vartia indices	249
3.6	Ideal index functions and Theil's Best Linear Index (BLI)	255
a)	Three-component model of value change (the structural component)	255
b)	Distribution of the structural component (additive model): Stuvell's solution	257
c)	Distribution of the structural component (multiplicative model): Fisher's solution	258
d)	Aggregation of a two component multiplicative micro-model: Vartia's solution	258
e)	Brief introduction into Theil's Best Linear Index (BLI)	261
4	Price collection and index systems in official statistics	263
4.1	The set up of a system of price quotations and price indices in official statistics	263
a)	The role of official statistics	263
b)	The implementation of a system of surveys in price statistics	264
c)	Some general remarks concerning the structure of a system of indices	267
d)	The German system of index calculations in official statistics	268
4.2	Quality adjustment in price statistics	271
a)	Need for quality adjustment	271
b)	For what kind of changes should adjustments be made? (Identification problem)	274
c)	Typology of quality changes and adjustment methods	276
d)	Digression: numerical example for the implicit methods: quality adjustment by a proportional change of the observed price	284
e)	More comments on selected methods	287
f)	Comments on the hedonic method	291
4.3	Sampling in price statistics	299
a)	Random sampling: why and what?	299
b)	Random selection of localities and outlets, derivation of weights from	302

budget surveys of private households	
c) Sampling of goods, new goods and the use of scanner data	304
d) Sampling designs in general and methods applied in official consumer price statistics	306
e) The Generalized Fisher index	310
f) Accuracy of a price index	313

5 Deflation and aggregation 315

5.1 Introduction to deflation methods 315

a) Objectives and types of deflation	315
b) Direct and indirect volume measurement, new products	318
c) Inflation measurement and deflation (volume measurement)	320
d) Deflating National Accounts aggregates	321
e) Quantities and qualities, price level and price structure	323
f) Deflation in terms of “real income”	324
g) Terms of trade effect	324
h) The choice of “the” deflator (the notion of the “general price level”)	326

5.2 Deflation in volume terms, aggregation and double deflation 328

a) Interpretation of “volumes”, axiomatic considerations	328
b) Double (indirect) deflation method	333
c) Aggregative properties of index functions and deflation methods	337
d) Consistency in aggregation (aggregative consistency of the index function, A1)	338
e) Equality test (ET)	343
f) Structural consistency of volumes (A2), a case for using Paasche indices in deflation	344
g) Some new results concerning aggregative consistency (v. Auer)	347

5.3 Harmonization of deflation methodology in Europe 350

a) General approach to harmonization of deflation methods in the EU	350
b) Aggregates related to the “production approach”	352
c) Aggregates related to the “expenditure approach”	354
d) Summary of the HVM and some remarks concerning direct volume measurement by extrapolation of output indicators	357
e) Move from “fixed base” indices to chain indices	357

5.4 Fisher’s ideal index far from being ideal 362

a) Fisher deflation (direct Fisher price indices) and quantity movement	362
b) Structural inconsistency of Fisher – deflation	364
c) The chained Fisher’s ideal index as deflator	365
d) Fisher’s ideal index all but “ideal”	366

6 Price indices and unit value indices in official statistics 371

6.1 The Consumer Price Index (CPI) and the Harmonized Index of Consumer Prices (HICP) in Europe 371

a) Political need for harmonization of CPI complications in Europe	371
b) Main aspects of index construction that need to be harmonized	372
c) The harmonization strategy	375
d) Rules for the Harmonized Index of Consumer Prices (HICP)	377
e) Aggregation over time (the chain index approach)	384
f) The Monetary Union (EMU) Index of Consumer Prices (MUICP)	387

6.2 Some controversial issues in inflation measurement 390

a) Core inflation and “net price indices”	390
b) Asset inflation and “total inflation”	393
c) The treatment of owner occupied dwelling (OOD)	397

6.3 Producer Price Indices (PPI) 405

a) Price indices in agriculture	406
b) Producer Price Index (PPI) for the Production Industries	411
c) Price indices for buildings, improvement of dwellings and other construction work	412
6.4 Price indices and unit value indices, foreign trade and wage indices	415
a) Unit value vs. price indices	416
b) Difference between unit value indices and price indices in foreign trade statistics	425
c) Indices of wages and salaries as price indices or unit value indices	427
7 Chain indices	429
7.1 Arguments in favour of the chain index approach	429
a) Overview of arguments for chain indices and some general observations concerning the arguments of chainers	429
b) Arguments of group A: Focus on links rather than on the chain	433
c) Group B arguments: Ambiguities concerning the notion of “base”	439
d) Group C arguments: Adjustment of weights, new products and changes in quality	447
e) Group D arguments referring to expected and desired results of index calculations	450
f) Chain indices recommended for deflation (SNA, argument of type E)	452
g) Concluding remarks concerning the nature of the arguments	452
7.2 Properties of chain indices	456
a) Introduction	456
b) Chain price indices and the two traditional interpretations of a price index	458
c) No identity and monotonicity: axioms apply to links only (not to the chain)	462
d) Cyclical movement of prices	464
e) No transitivity but path dependence	466
f) Nonlinearity (the determinants of an increase/decrease of the price level)	469
g) Inconsistency in aggregation	474
h) No structural consistency (of volumes) and proportionality in quantities	476
i) Determinants of the drift (drift-function, temporal correlation, growth factors)	480
j) Justification of chainlinking, uniqueness theorem of Funke et al. concerning the Cobb-Douglas index	485
k) Aspects of official statistics: cost-benefit-considerations, understandability, and a system of chain indices	487
8 Interspatial comparisons of prices and volumes	497
8.1 Introduction into interspatial comparisons	497
a) Differences between intertemporal and interspatial comparisons	497
b) Uses and limitations of international price comparisons; PPPs and exchange rates	501
c) Bilateral and multilateral price comparisons	503
d) Some methods of bilateral international comparisons	504
e) Consistency in multinational comparisons (the meaning of transitivity)	509
f) Conditions, axioms and required properties in multinational comparisons	512
g) Engel-Gerschenkron effect, Paasche – Laspeyres – Spread	515
8.2 Overview of methods proposed for multinational comparisons	516
a) Introduction into methods to solve the transitivity problem	516

b) Evaluation of methods adequate for intra-EU comparisons	520
c) Block methods: Geary-Khamis (GK) method	522
d) The method of “minimum spanning trees” (MST-Method)	525
e) Short comments on some other methods	530
8.3 “Block methods” (Geary-Khamis etc.) for multinational comparisons	533
a) The Central Country Method (CCM)	534
b) The Geary-Khamis (GK) approach to multinational comparisons	538
c) The (balanced) method of van Yzeren	545
d) Short remarks concerning further variants of the block-of-countries approach	548
8.4 Averaging methods (generalizations of the binary case) for multinational comparisons and related methods	551
a) Generalization of country reversible index functions	551
b) The EKS-method to provide transitive PPPs	552
c) The Caves-Christensen-Diewert (CCD) – method	557
d) Models based approaches	559
e) Multilateral generalized Törnqvist method (MGT)	560
References	562