The Price Index and its Extension

A chapter in economic measurement

S. N. Afriat

Contents

	Forewora	XV11
	Preface	xix
	Acknowledgements	xxvii
IN	TRODUCTION	1
1	Laspeyres 3	
2	Paasche 6	
3	Revealed preference 9	
4	Utility 12	
PA	ARII	
LA	ASPEYRES, PAASCHE AND FISHER	19
Int	roduction	
	—theory and practice	21
1	Comparisons 21	
2	Fleetwood's student 23	
3	What is a price index? 29	
I	Three problems	39
1	The 'Index Number Problem' 41	
2	Formulae and tests 43	
3	Utility-cost 45	
4	Cost-efficiency and efficacy 48	
5	The price index 52	
6	Problems 56	
II	The general problem of limits	59
1	Consistency of demands 63	
2	Revealed choice and preference 69	
3	Preference-non-preference contradiction 71	

4	Cost-efficiency and non-satiation 74	
5	Critical costs 76	
6	Revealed bounds and classical limits 79	
ш	The homogeneous problem	
	—Laspeyres and Paasche	87
1		
1	Conical utility and expansion loci 94	
2	Homogeneous consistency 98	
3	Revealed homogeneous preference 101	
4	Range of the price index 104	
5	Revealed bounds 105	
6	Classical limits 106	
	71.	100
IV	Fisher and quadratics	109
1	Byushgens on Fisher 117	
2	Question about Byushgens 119	
3	Gradients and quadratics 120	
4	Conditions for compatibility 123	
5	Theorem on quadratic consistency 127	
An	pendix	' 129
11 P	penua	12)
I	Total and incremental inflation rates and inflation bias 131	
Π	Computations: Statistics Canada data 135	
FIC	GURES	
1	Fleetwood's calculation (1707) .	2
2	Utility-cost	40
3	Demand-utility compatibility	50
4	Partial compatibility	5
5	Income purchasing power	5:
6	Purchasing power and the price index	5:
7	Classical utility construction	6
8	Cost of living limits	8
9	Utility for upper limits	8
10	Utility for lower limits	8
I1	The "Limits" argument	9:
	Keynes' "Method of limits"	9
13	The Paasche-Laspeyres cone	9
14	Critical points and the incremental price index	114
15	Inflation maps: income groups	13

xii The Price Index

~	
Contents	X111
Comenis	AIII

TABLES

INFLATION RATES,	INCREMENTAL RATES
AND INFLATION BI	AS

Tables	for the entire expenditure range
for the	following income stratifications

I	Income stratification by approximate octiles	138
II	Income stratification by approximate quartiles	139
III	Approximate median income stratification	140
IV	Overall	141

PART II

THE COST OF LIVING	143
--------------------	-----

I	Price and quantity levels	145
1	Price-quantity duality 146 •	
2	Dual function examples 149	
3	Price and quantity levels 151	
4	Limits of indeterminacy 154	

II	The True Index	15'

1	The cost of living 157
2	The price index 158
3	Formulae and Fisher's tests 158
4	The Paasche-Laspeyres interval 159
5	Existence test 161
6	Theory and practice 162
7	Many periods 164

Ш	Fisher and Byush	gens	175
9	Fisher's formulae	172	

1	Byushgens'theorem 177
2	The existence question 178
3	Purchasing power correspondence 181
4	Many-period generalization 183

IV	The Four-Point Formula	187

1	Median multipliers and levels
2	Centre locus 194

_				
3	Linear	purchasing	power	197

8 Price levels 168

X1V	The Price Index	
4	Critical locations 200	
5	Elliptical case 202	
6	Hyperbolic case 204	
7	Parabolic limits 206	
8	Demonstration: Fisher's data 207	
0	Demonstration. Pisher's data 207	
V	Wald's "New Formula"	213
1	Linear expansions 214	
2	Revealed purchasing power 215	
3	The critical points 217	
4	Marginal price indices and limits 220	
7	Wangina price fidices and films 220	
A D	DENDICES	222
AP	PENDICES	223
1	The system of inequalities $a_{rs} > x_s - x_r$. Research	
	Memorandum No. 18 (October 1960), Econometric Research	
	Program, Princeton University. Proc. Cambridge	
	Phil. Soc. 59 (1963), 125-33	225
	1 mi. soc. 37 (1703), 123-33	223
2	The construction of utility functions from expenditure data.	
4		
	Cowles Foundation Discussion Paper No. 144 (October 1964),	
	Yale University. First World Congress of the Econometric Society,	
	Rome, September \965. International Economic Review 8,	
	1 (1967), 67-77	239
3	The concept of a price index and its extension. Second	
	World Congress of the Econometric Society, Cambridge,	
	September 1970	253
4	The Theory of International Comparisons of Real Income	
	and Prices. In International Comparisons of Prices and Output,	
	Proceedings of the Conference at York University, Toronto,	
	1970, edited by D. J. Daly. National Bureau of Economic	
	Research, Studies in Income and Wealth Volume 37,	2.11
	New York, 1972 (Ch. I, 13-84)	261
_		
5	Measurement of the purchasing power of incomes with	
	linear expansion data. Journal of Econometrics 2,	215
	3(1974), 343-64	313

6	On the constructability of consistent price indices between several periods simultaneously. In Essays in Theory and Measurement of Demand: in honour of Sir Richard Stone,		
	edited by Angus Deaton. Cambridge University Press, 1981, 133-61	337	
7	Index-number practice under conditions of hyperinflation—with		
	particular reference to Peru. International Development		
	Research Centre (IDRC), Ottawa, 1991	365	
	Notation	395	
	Bibliography	397	
	Index	419	