

ABSTRACT

The Retail Price Index in Trinidad and Tobago:
The Issues and an Alternative.
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The search for an alternative Retail Price Index (RPI) can be viewed from the perspective of satisfying the dual objectives of theoretical efficiency and practical usefulness. The thesis reviews the theoretical issues involved in the index number debate, revealing the existence of many criteria involved in the selection of the appropriate index. In spite of the abundance of criteria, the final choice of index is usually based on the perceived trade-off between statistical efficiency and resource availability, and the statistician's perception of the desired uses for the index.

After exploring three major uses of the retail price index in Trinidad and Tobago, the paper concludes that the currently constructed index has four major deficiencies: it applies only to a specified portion of the population; the Laspeyres formulation includes an upward bias; the index ignores

important forces such as seasonal fluctuations, taste and quality change and taxation; and fourthly, the index both reflects and contributes to price changes. Subsequently, four major theoretical and practical issues are examined, and some practical recommendations made.

The Chain Laspeyres index is recommended as an efficient alternative to the current index. The use of an appropriate weighting mechanism allows the index to be widely acceptable, while the chaining procedure avoids many of the standard criticisms of fixed weighted indices. This index's most important property, its continuous updating of the weights, is achieved through the use of the national accounts as well as the household budgetary survey. While the survey will still be used for the individual commodities, the national accounting figures (in particular, private final consumption expenditure) will be used for the various commodity groups. The paper also shows that the Chain index is statistically superior to the direct Laspeyres index.