

INDEXES OF ORDINARY SHARE PRICES— AN EVALUATION

C. S. BALASUBRAMANIAM

1. *Introduction*

Indexes of share prices serve the purpose of summary measure of behaviour of security prices and stock market. Equity share price movement is, by and large, the most sensitive element since it is subject to high risk and return which arises on account of its size and nature of investment. The principal equity share price indexes used by investors are:

- (i) Reserve Bank of India Index
- (ii) Economic Times Index
- (iii) Financial Express Index

This paper examines their construction and usefulness and offers a few suggestions. Before examining the index number series, it is pertinent to ask what the purposes of computing a share price index number are; there may be two purposes:

- (a) to represent changes in the values of all shares or alternatively to represent changes in the overall market performance e.g., boom or depression.
- (b) to reflect price movements in typical shares.

Serving both of these purposes, would demand appropriate sampling, weighting and averaging. We shall examine these issues also in evaluating indexes.

2. *Reserve Bank of India Index (RBI Index)*

2.1 *Construction*

- (1) Industries have been divided into 3 main groups and a number of sub-groups.
- (2) The financial year 1970-71 has been chosen as the base year in the new series. The earlier bases were 1952-53 and 1960-61.
- (3) In the sample, 356 equity shares listed on Bombay, Calcutta, Madras, Delhi and Ahmedabad Stock Exchanges have been in-

The author is grateful to Prof. B. S. R. Rao of Gokhale Institute of Politics and Economics, Pune and Prof. M. A. Vanjour of Xavier Institute, Jamshedpur for valuable comments.