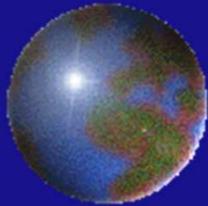


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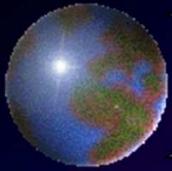
*Workshop for Regional
Coordinators*



Eurostat, Luxembourg
March 24 to 28, 2003

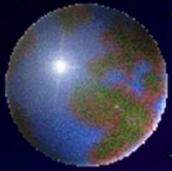
Chapter 4

Price concepts and
quality



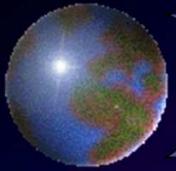
Price Concepts

- ❖ PPPs are used to convert national expenditure data into a common currency
- ❖ The expenditure data are taken from the National Accounts
- ❖ To ensure consistency with expenditure data, the ICP adopts the price concepts as defined in the 1993 System of National Accounts, or SNA.



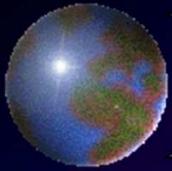
Valuation of household consumption expenditures

- ❖ Expenditures are valued at the actual transactions prices paid by the purchasers.
- ❖ The purchasers are resident households in their capacity as consumers.
- ❖ The purchaser's price is the amount actually payable by the purchaser to take delivery of the good or services at the time and location required by the purchaser.



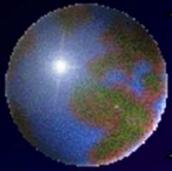
The purchaser's price

- ❖ The purchaser's price includes any delivery charges: e.g., for goods bought from mail order houses.
- ❖ It includes any taxes payable on the products purchased. It includes any invoiced VAT to the purchaser that is not subsequently deductible.
- ❖ It is the price payable after any subsidies on the product have been deducted.



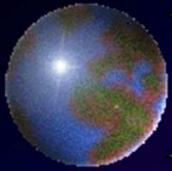
Offer prices

- ❖ In the CPI and the ICP, the great majority of prices are collected from the sellers, retail outlets, and not from households, the purchasers.
- ❖ The prices displayed in outlets are typically the prices at which the products are offered for sale. These are not necessarily the prices at which the products are actually sold.
- ❖ The prices advertised in magazines are also offer prices.



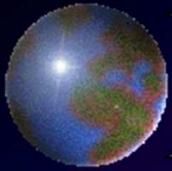
Offer prices and transaction prices

- ❖ The transaction prices paid by purchasers may differ from offer prices for various reasons.
- ❖ Lower prices may be payable for bulk purchases.
- ❖ Sellers may hold periodic ‘sales’ in which prices are temporarily reduced.
- ❖ Prices may be lowered to sell off perishable goods.
- ❖ Lower prices may be paid for cash purchases.



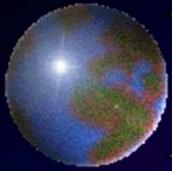
Bargaining and negotiated prices

- ❖ Offer prices may be reduced by bargaining.
- ❖ In some markets, including informal markets, there may be no offer prices displayed, the prices being determined entirely by bargaining.
- ❖ In such cases, the price collector should try to collect the price from the purchaser rather than the seller.
- ❖ The price collector may actually have to purchase by bargaining to obtain a price.



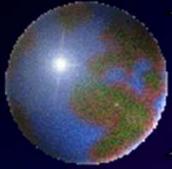
Purchasing on credit

- ❖ The purchaser may provide credit or arrange for a financial institution to provide credit: hire purchase, etc.
- ❖ The purchaser's price excludes all interest payments payable over the period of any loan extended to the purchaser.
- ❖ Borrowing is a financial transaction that is quite separate from the purchase of a good or service. Loan repayments are not purchases.



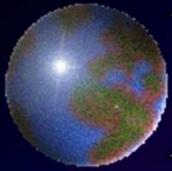
Service charges

- ❖ The purchaser's price includes any service charge payable on a meal, hotel room, taxi ride, etc.
- ❖ It also includes the tip when a tip is normally expected, even if the exact amount is discretionary.
- ❖ A simple gift that is not connected with the acquisition of a good or service is not part of a purchase.



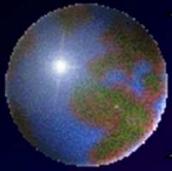
Consumption of own production

- ❖ Imputed expenditures on goods and services produced for own consumption are valued at equivalent market prices.
- ❖ For owner occupied housing, the housing services produced for own consumption are valued at equivalent market rents, if there are any. If not, the rents should be estimated by ‘user costs’: mostly, depreciation plus capital, or interest, costs.



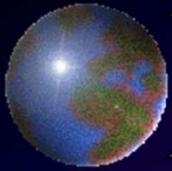
Average annual national prices

- ❖ The expenditures in the annual national accounts are the total annual values for the country as a whole.
- ❖ The price of the same product can vary during the year and between different regions of the country.
- ❖ The required ICP price for a single product is the average annual national price.
- ❖ It is obtained by dividing the total value of the expenditures by the total quantity of the product purchased.



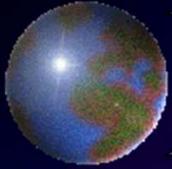
Average prices

- ❖ The required average as just defined is a weighted average of the various prices at which the product may be on sale at different times or in different locations.
- ❖ The weights are the quantities are sold at each price.
- ❖ Information on quantities will not usually be available, and approximations will have to be used.



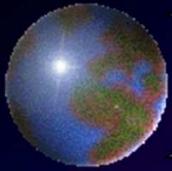
Average prices

- ❖ Prices should only be averaged when the quantities to which they refer are homogeneous.
- ❖ If there are different qualities, the average price will depend on the mix of qualities, which may vary from country to country
- ❖ If the products are tightly specified, there is little room for variation in quality.



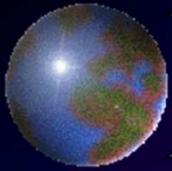
Quality differences

- ❖ If different qualities sell at different prices at the same time on the same market, they are effectively different products.
- ❖ Their relative prices reflect both relative costs of production and their relative utilities to consumers.
- ❖ If the products in different countries are different qualities, their prices are not comparable.



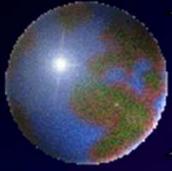
Characteristics and quality

- ❖ A product has a number of characteristics that determine its quality.
- ❖ Characteristics may be size, weight, materials, durability, power, speed, frequency, reliability, etc.
- ❖ Different qualities of the same product have different mixes of the same kinds of characteristics.



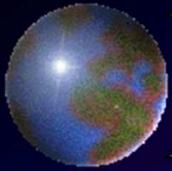
Quality and price

- ❖ It may be possible to estimate the effect of different characteristics on price.
- ❖ In that case, it may be possible to estimate by how much the price of some quality differs from some specified quality as a result of the difference in its characteristics.
- ❖ In that case, the price of the observed quality may be adjusted to the required or specified quality.



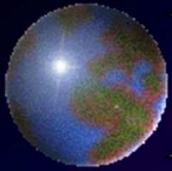
The matched product approach

- ❖ The matched product approach used in both CPIs and the ICP requires the products whose prices are compared to be identical, or at least for consumers to be indifferent between them.
- ❖ A ‘tight’ specification is one that has a precise and exhaustive list of its relevant or price determining characteristics.
- ❖ The prices of products in different countries that fit the same tight specification ought to be ‘comparable’.



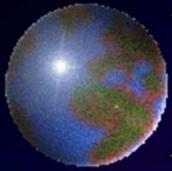
Loose specifications

- ❖ A loose specification can encompass different qualities of the same generic product.
- ❖ Instead of requiring a particular characteristic to have a precise value, such as 100% cotton, it may lie within a certain range such as over 60 % cotton.



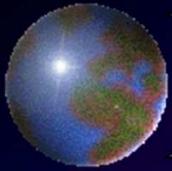
Adjusting prices for quality differences

- ❖ If the prices of 100% cotton garments tend to be 15% higher than those of those with 60% cotton, other things being equal, the price of a 60% cotton garment in one country can be increased by 15% to make it comparable with that of a 100% garment in another country.
- ❖ It may thus be possible to adjust the prices of different qualities to some target quality to make them comparable.



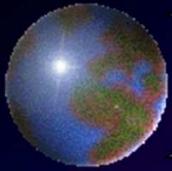
Loose specifications and quality adjustments

- ❖ Loose specifications may be acceptable, provided that it is feasible to adjust the prices for observed quality differences.
- ❖ This suggests that some looseness may be acceptable, but not if it goes beyond the point at which quality adjustment is feasible.
- ❖ Some limited variation in simple characteristics, such as package size, may be acceptable.



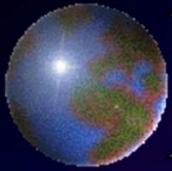
Tight versus loose specifications

- ❖ The looser the specifications, the greater the chance of finding a product that fits the specifications within a given country.
- ❖ On the other hand, if the characteristics are not the same, the prices have to quality adjusted to make them comparable.
- ❖ If quality adjustment is not feasible, the price comparison may have to be abandoned.



Preference for tight specifications

- ❖ There may be substantial quality differences between different countries.
- ❖ The prudent strategy is to make the specifications relatively tight to ensure comparability.
- ❖ The trade off is that as the tightness increases, number of price comparisons will tend to decrease.



Recording the characteristics

- ❖ Any deviations from the specifications given to the price collectors must be recorded.
- ❖ Whether tight or loose specifications are used, it is essential to keep a check on the characteristics of the products actually priced.
- ❖ A price is meaningless unless the exact characteristics of the product are known.