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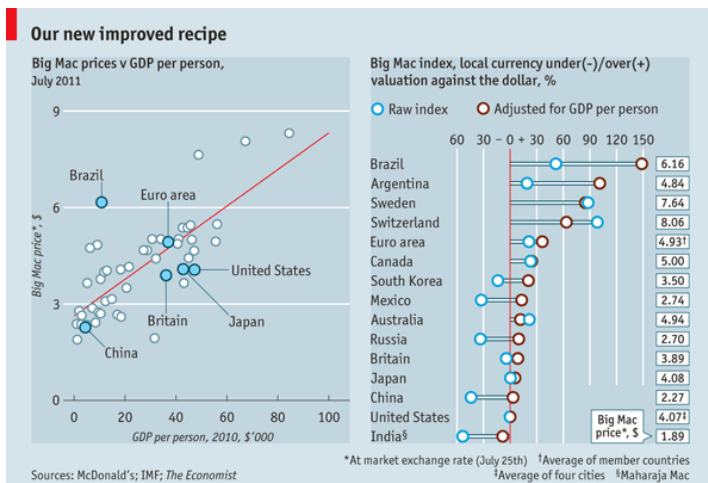
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The Big Mac index
Currency comparisons, to go

Jul 28th 2011, 14:35 by The Economist online

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A beefed-up version of the Big Mac index suggests that the Chinese yuan is now close to its fair value against the dollar



THE Economist's Big Mac index is a fun guide to whether currencies are at their "correct" level. It is based on the theory of purchasing-power parity (PPP), the notion that in the long run exchange rates should move towards the rate that would equalise the prices of a basket of goods and services around the world. At market exchange rates, a burger is 44% cheaper in China than in America. In other words, the raw Big Mac index suggests that the yuan is 44% undervalued against the dollar. But we have long warned that cheap burgers in China do not prove that the yuan is massively undervalued. Average prices should be lower in poor countries than in rich ones because labour costs are lower. The chart above shows a strong positive relationship between the dollar price of a Big Mac and GDP per person.

PPP signals where exchange rates should move in the long run. To estimate the current fair value of a currency we use the "line of best fit" between Big Mac prices and GDP per person. The difference between the price predicted for each country, given its average income, and its actual price offers a better guide to currency under- and overvaluation than the "raw" index. The beefed-up index suggests that the Brazilian real is the most overvalued currency in the world; the euro is also significantly overvalued. But the yuan now appears to be close to its fair value against the dollar —something for American politicians to chew over. Read more in our [Economics focus](#) and [leader](#).

Click on the tabs in the table below for a ranking of currencies on both the raw and the adjusted index:

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sloehand wrote:

Jul 28th 2011 2:30 GMT

Food for thought...

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Ohio wrote:

Jul 28th 2011 2:40 GMT

Big commodity exporters are overvalued now -- Brazil, Argentina, Canada. I have to wonder why Australia isn't higher. It could just be cheap local beef, but there are a lot of cows in Argentina and Canada too.

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Ohio wrote:

Jul 28th 2011 2:44 GMT

In the years to come, as the chinese yuan continues to climb in value relative to the dollar, getting rid of the Treasury bonds in the Chinese reserve is going to be an even more painful process. They should start now and do it slowly. It's hard to believe that the dollar won't keep falling long term. That more than any debt ceiling theatrics should be weighing on the minds of foreign creditors.

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SSCPT wrote:

Jul 28th 2011 2:52 GMT

Latin America heading toward another currency crisis

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ollisaarinen wrote:

Jul 28th 2011 3:03 GMT

I would consider these results to reflect the productivity of labor and fairness of division of income.

In Chine the Big Mac Price is in line with the labor costs, which are low because China lends all her money to US (Why?).

In Brazil the workers listen samba while serving the Macs under the supervision of the greedy franchiser.

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Readeru wrote:

Jul 28th 2011 3:03 GMT

Finally!

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Dasha Petrova wrote:

Jul 28th 2011 3:05 GMT

I look at this measurement on Bloomberg via PPP. It does seem to be accurate, viz. the franc is indeed 2x or even 2.5x overvalued compared to the dollar. But Argentina? Unless their inflation has dramatically changed prices since 1.5 years ago, it should be significantly cheaper there than in America, whereas the chart shows 20% overvaluation. Maybe it's only this one product that is more expensive.

What's the deal with Hong Kong and Brazil, especially the GDP adjusted number for Brazil?

China exchanges products for bonds with America, like Germany did with Greece/Italy. What structure is unraveling and will cause destruction to both sides. America needs to go back to Austrian economics: accumulation of capital, and all government policies geared towards this as the priority.

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cjared wrote:

Jul 28th 2011 3:47 GMT

Oh good. The RMB is at fair value. Can somebody tell the BOC? They can stop buying USD (and any other currency they can get their hands on) now. I can't wait to see how this works out for everyone. Interesting times.

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eco-economist wrote:

Jul 28th 2011 3:49 GMT

Please provide the r-squared value for the trend line on the Big Mac Price vs. GDP Per Person chart.

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khmTzic3YT wrote: Jul 28th 2011 3:54 GMT
 Big Macs are a Weapon of Mass (Destruction).
 Obesity is epidemic.
 Look up from your computer at the your neighbors. It is the disease in plain sight that everyone chooses to ignore.
 It is the World's Number One Health Problem. It is a major contributor to hypertension, heart disease, cancer, arthritis and diabetes.
 It kills more people than terrorism, global warming and catastrophes combined.
 It makes the 1918 Spanish Flu Epidemic look like the sniffles.
 The end of the world scenario of flesh eating zombies should be replaced by a world of Big Mac eating Morbidly Obese.
 Your best option is to move to a place where Big Macs are exceedingly expensive and inaccessible.

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hedgefundguy wrote: Jul 28th 2011 4:14 GMT
 Your July 2010 index showed the US cost was \$3.73

That's an inflation rate of 9.1% in one year!

Regards

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Common Sense and Reasonable Discourse wrote: Jul 28th 2011 5:05 GMT
 Brazil is confusing considering they are now a massive exporter of beef. I'd be interested in a comparison on Government set minimum wages since labor costs are a huge component of the price.

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Richard Daley wrote: Jul 28th 2011 6:00 GMT
 At first glance, the adjusted value in Brazil is staggering, especially considering its plentiful supply of cheap beef (although perhaps there is very little beef in a Big Mac, anyway). However when one considers Brazil's staunchly protectionist and pro-labor policies, the Big Mac becomes more of an anomalous barometer. Foreign corporations providing labor-intensive goods simply aren't as competitive in Brasil as they would be in the US, for example. I understand why the Big Mac's global omnipresence makes it an ideal test subject for this index, but Brazilian and American Big Macs are not as apples-to-apples as one might think.

Regardless, it is refreshing to see a new dimension added to the index. In the future, I'd like to see some sort of comparison of a "basket of services", such as the cost of an appendectomy. I think the U.S. currency might then be the one appearing significantly overvalued!

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HP26BFad2W wrote: Jul 28th 2011 6:13 GMT
 Interesting to finally see India in the Big Mac Index though i wonder how much the fact that the Maharajah Mac (Big Mac in India)is made of chicken and not beef affects prizes.

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guest-ijlwmm wrote: Jul 28th 2011 6:28 GMT
 For China, big Mac does not reflect PPP it reflects CPI.

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gregoryli wrote: Jul 28th 2011 8:01 GMT
 People around world pay differently for Big Mac, but they pay almost the same for iphone. I do not think per-capita GDP can adjust this difference well.

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TwtXAJFEG6 wrote: Jul 28th 2011 8:41 GMT
 In Brazil with this value you buy, besides the sandwich, a 300ml soda and french fries. Is that so in the other countries?

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germancrivelli wrote: Jul 28th 2011 9:12 GMT
 In Argentina, in McDOnalds, the Big Mac is cheaper than all the rest of haburguer combos, that´s how they cheat on this index, funny right? (it´s sad really..)

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plobe wrote: Jul 28th 2011 9:28 GMT
 @TwtXAJFEG6
 I think the prices should only include the hamburger, maybe you live outside cities and so the prices are lower?

@germancrivelli
Same in Finland.

In Finland prices are same in every McDonalds and are actually on their webpage.
For the interested: http://www.mcdonalds.fi/fi/ruoka/hinnasto_valikoima.html

BigMac is 5.44USD

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Andrew_77 wrote: Jul 28th 2011 11:48 GMT
For a fun look at the price of The Economist around the world check out
<http://www.bigeindex.com>

It also shows "brain to belly" ratio - a comparison of how many Big Macs you need to buy one Economist.

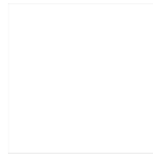
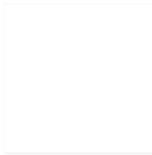
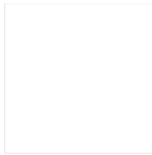
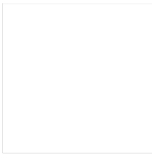
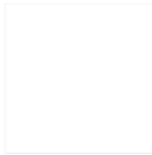
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