

# The Big Mac index

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*The Economist's* Big Mac index is based on the theory of purchasing-power parity (PPP), according to which exchange rates should adjust to equalise the price of a basket of goods and services around the world. Our basket is a burger: a McDonald's Big Mac.

The table below shows by how much, in Big Mac PPP terms, selected currencies were over- or undervalued at the end of January. Broadly, the pattern is such as it was last spring, the previous time this table was compiled (see [article](#)). The most overvalued currency is the Icelandic krona: the exchange rate that would equalise the price of an Icelandic Big Mac with an American one is 158 kronur to the dollar; the actual rate is 68.4, making the krona 131% too dear. The most undervalued currency is the Chinese yuan, at 56% below its PPP rate; several other Asian currencies also appear to be 40-50% undervalued.

The index is supposed to give a guide to the direction in which currencies should, in theory, head in the long run. It is only a rough guide, because its price reflects non-tradable elements—such as rent and labour. For that reason, it is probably least rough when comparing countries at roughly the same stage of development. Perhaps the most telling numbers in this table are therefore those for the Japanese yen, which is 28% undervalued against the dollar, and the euro, which is 19% overvalued. Hence European finance ministers' beef with the low level of the yen.

## A feast of burgernomics

### The Big Mac index

	Big Mac prices		Implied PPP* of the dollar	Actual dollar exchange rate Jan 31st	Under (-)/over (+) valuation against the dollar, %
	In local currency	in dollars			
United States†	\$3.22	3.22			
Argentina	Peso 8.25	2.65	2.56	3.11	-18
Australia	A\$3.45	2.67	1.07	1.29	-17
Brazil	Real 6.4	3.01	1.99	2.13	-6
Britain	£1.99	3.90	1.62‡	1.96‡	+21
Canada	C\$3.63	3.08	1.13	1.18	-4
Chile	Peso 1,670	3.07	519	544	-5
China	Yuan 11.0	1.41	3.42	7.77	-56
Colombia	Peso 6,900	3.06	2,143	2,254	-5
Costa Rica	Colones 1,130	2.18	351	519	-32
Czech Republic	Koruna 52.1	2.41	16.2	21.6	-25
Denmark	DKr27.75	4.84	8.62	5.74	+50
Egypt	Pound 9.09	1.60	2.82	5.70	-50
Estonia	Kroon 30	2.49	9.32	12.0	-23
Euro area§	€2.94	3.82	1.10**	1.30**	+19
Hong Kong	HK\$12.0	1.54	3.73	7.81	-52
Hungary	Forint 590	3.00	183	197	-7
Iceland	Kronur 509	7.44	158	68.4	+131
Indonesia	Rupiah 15,900	1.75	4,938	9,100	-46
Japan	¥280	2.31	87.0	121	-28
Latvia	Lats 1.35	2.52	0.42	0.54	-22
Lithuania	Litas 6.50	2.45	2.02	2.66	-24
Malaysia	Ringgit 5.50	1.57	1.71	3.50	-51
Mexico	Peso 29.0	2.66	9.01	10.9	-17
New Zealand	NZ\$4.60	3.16	1.43	1.45	-2
Norway	Kroner 41.5	6.63	12.9	6.26	+106
Pakistan	Rupee 140	2.31	43.5	60.7	-28
Paraguay	Guarani 10,000	1.90	3,106	5,250	-41
Peru	New Sol 9.50	2.97	2.95	3.20	-8
Philippines	Peso 85.0	1.74	26.4	48.9	-46
Poland	Zloty 6.90	2.29	2.14	3.01	-29
Russia	Rouble 49.0	1.85	15.2	26.5	-43
Saudi Arabia	Riyal 9.00	2.40	2.80	3.75	-25
Singapore	S\$ 3.60	2.34	1.12	1.54	-27
Slovakia	Crown 57.98	2.13	18.0	27.2	-34
South Africa	Rand 15.5	2.14	4.81	7.25	-34
South Korea	Won 2,900	3.08	901	942	-4
Sri Lanka	Rupee 190	1.75	59.0	109	-46
Sweden	SKr32.0	4.59	9.94	6.97	+43
Switzerland	SFr6.30	5.05	1.96	1.25	+57
Taiwan	NT\$75.0	2.28	23.3	32.9	-29
Thailand	Baht 62.0	1.78	19.3	34.7	-45
Turkey	Lire 4.55	3.22	1.41	1.41	nil
UAE	Dirhams 10.0	2.72	3.11	3.67	-15
Ukraine	Hryvnia 9.00	1.71	2.80	5.27	-47
Uruguay	Peso 55.0	2.17	17.1	25.3	-33
Venezuela	Bolivar 6,800	1.58	2,112	4,307	-51

Sources: McDonald's; *The Economist*

\*Purchasing-power parity: local price divided by price in United States

†Average of New York, Atlanta, Chicago and San Francisco ‡Dollars per pound

§Weighted average of prices in euro area \*\*Dollars per euro