

explainity explains: Big Mac Index

Almost everyone knows this thing here: a Big Mac! But what's a burger got to do with the economy? Well, ever heard of the "Big Mac Index"?

It's based on something called "purchasing power parity theory". That means that in an equal market, the same product would cost the same everywhere. But because the market isn't equal, with each country's and currency's different purchasing power, we need comparative figures to show these differences. And in this case a Big Mac is particularly useful, because it's sold in around 140 countries and of course, everywhere it's made the same way.

Here is an example: in the USA, a Big Mac costs 5, - dollars. That's the benchmark. In Poland, the same burger costs about 10, - zloty, which converts to around 2,50 dollars. So, a Big Mac in Poland is only half the price. This means that Poland's purchasing power is only half as high as the USA's.

But a Big Mac is only a very rough indicator of a currency's value. It disregards too many different factors that affect the price.

Besides, in some countries, Big Macs aren't even sold. So, commenting on the purchasing power of those countries using this index would be impossible.

That's why the "Mini Mac Index" came about in 2013. It uses the price of an iPad mini as a comparative indicator. This product is sold all around the world, so it's often seen as a more reliable benchmark. And then there's also the "Billy Index", which uses a shelving unit sold by a large Swedish furniture chain as a purchasing power index.

But whether it's a burger, iPad or a shelving unit, the principle of each index is always the same. You take a popular product, ideally one which is sold across the globe, and look at the price in each country. You then convert it into dollars using the current exchange rate. You take the price in each country and calculate the average value. That's the benchmark. Compare that to the price in a specific country, and that's how you measure the purchasing power of a country's currency.

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