

8.7: Assignment- The “Big Mac” Index

ASSIGNMENT: The “Big Mac” Index

The Big Mac Index explained as a way to measure “PPP” or Purchasing Power Parity across the globe.

What is the “Big Mac” Index?

One suggested method of predicting exchange rate movements is that the rate between two currencies should naturally adjust so that a sample basket of goods and services should cost the same in both currencies Purchasing power parity.

In the Big Mac Index, the basket in question is a single Big Mac burger as sold by the McDonald’s fast food restaurant chain. The Big Mac was chosen because it is available to a common specification in many countries around the world as local McDonald’s franchisees at least in theory have significant responsibility for negotiating input prices. For these reasons, the index enables a comparison between many countries’ currencies.

The Big Mac PPP exchange rate between two countries is obtained by dividing the price of a Big Mac in one country (in its currency) by the price of a Big Mac in another country (in its currency). This value is then compared with the actual exchange rate; if it is lower, then the first currency is under-valued (according to PPP theory) compared with the second, and conversely, if it is higher, then the first currency is over-valued.



A YouTube element has been excluded from this version of the text. You can view it online here: <http://pb.libretexts.org/ib/?p=150>

ASSIGNMENT:

1. **Watch the Video: “The Big Mac Index” (8:38)**
2. **Follow the LINK to the current Big Mac Index: *The ECONOMIST’S “BIG MAC” INDEX*** This Index is located on the Economist Magazine’s website. This is an interactive site, so you can click onto the map and see how much the Big Mac will cost in various countries. This also gives you information about whether the currency of that country is under- or over-valued.
3. **Go to the Internet and Google NEWS for “Exchange Rates and International Trade”** (or similar search terms). See example below.
4. **Select a news item relating to Exchange Rates and International Trade.** Be sure to copy the LINK to the news item or article that you select. You will need to include this in your initial discussion board posting.

Discussion Board: Exchange Rates and International Trade:

1. **Make your initial Discussion Board Posting (125 – 150 words).** In this post you should include/answer/address the following:
 1. BRIEFLY explain your news item to the class
 2. Include the LINK to your news item so your classmates and I can read the full story. (You do NOT need to attach a copy of the item, just include the link)
 3. What are the challenges that currency exchange rates pose to doing business in a global market?
 4. How can business use exchange rates to their advantage in conducting business globally?
2. **Respond to at least TWO of your classmates (50 – 75 words, each).**

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