



The Big Mac Index



The Big Mac Index compares the price of a Big Mac in different countries around the world. First published in 1986 by the British business magazine *The Economist*, it was created to highlight the importance of exchange rates and differences in the cost of living. Ideally, the same goods should cost the same everywhere, but the Big Mac Index shows that they don't.

The Economist's Big Mac Index is based on the theory of purchasing power parity (PPP), which states that one dollar should buy the same value anywhere in the world. According to this theory, in the long run, the exchange rate between two currencies should adjust so that the same basket of goods and services costs the same in both countries. In this case, our 'basket' is a McDonald's Big Mac, which is produced in around 120 countries.

How is the Big Mac Index calculated?

The first step is to find out how much a Big Mac costs in a particular country in local currency (e.g., euros, Chilean peso, Swiss francs). This price is then compared to the price of a Big Mac in the US. By comparing the official exchange rate of the two currencies (e.g. 1 Euro = US\$1.39), you can find out whether the burger is more expensive or cheaper in a particular country.

What does the Big Mac Index tell us?

The Big Mac is a truly global product, available in around 120 countries with the same ingredients and quality, thanks to McDonald's strict regulations on its franchise partners. This is why one might assume that the price of a Big Mac would be the same everywhere. In reality, burger prices vary significantly.

The five most expensive countries	The five cheapest countries
Switzerland 8.17 US\$	Taiwan 2.39 US\$
Norway 7.14 US\$	Indonesia 2.43 US\$
Uruguay 7.04 US\$	India 2.59 US\$
Sweden 5.87 US\$	South Africa 2.71 US\$
Costa Rica 57.1 US\$	Egypt 2.75 US\$

source: de.statista.com 2024

What does the Big Mac Index tell us about development and prosperity?

The Big Mac Index, while primarily a tool for comparing currency values and purchasing power parity (PPP), can also provide insights into development and prosperity. It highlights differences in the cost of living across countries, showing that in more developed and prosperous nations, the cost of a Big Mac tends to be higher due to factors like wages and rents, whereas in less developed countries, the cost is often lower. This helps illustrate how local economic conditions affect consumer prices. The index is based on PPP, which states that identical goods should cost the same in different countries in the long run, and by comparing local Big Mac prices to those in the United States, we can see if a currency is undervalued or overvalued. This leads to discussions about how currency values impact economies and purchasing power. Additionally, the index sheds light on economic disparities, both within and between countries, and serves as a benchmark for comparing economies in the context of globalization. The affordability of a Big Mac can also indicate consumer prosperity, as wealthier countries have a larger portion of the population able to afford it without financial strain. Finally, the index can prompt discussions about the impact of economic policies



on prices and currency values, offering a practical way to understand complex economic concepts and their real-world implications for development and prosperity.

The Real Big Mac Index" (RBMI): How long do you have to work to be able to afford a Big Mac?

This modified Big Mac Index compares how long, on average, a worker in a given city (calculated for a total of 73 cities) would have to work to earn the equivalent of the price of a Big Mac in that city. The RBMI thus takes local wage levels into account. The picture that emerges is indeed different from the usual Big Mac index: It is true that a Big Mac can be significantly cheaper in many places around the world than in the US when the local price is converted into US dollars. But in Chicago, Toronto and Tokyo, you only need to work just under 12 minutes to be able to afford a Big Mac. In Nairobi (Kenya), Jakarta (Indonesia) and Mexico City, on the other hand, workers have to work more than two hours to earn the equivalent of a burger. Whether many people there will 'treat' themselves to a Big Mac after work is highly questionable. Who works 260 minutes to buy a burger?

iPods, Starbucks, Billy...

In recent years, a number of "variations" of the Big Mac Index have appeared, which work on a similar principle. In January 2004, for example, the Economist published a "Tall Latte Index", replacing the Big Mac with a cup of Starbucks coffee. An Australian bank came up with the "iPod index". It argues that Apple's music device is more appropriate than the Big Mac because it is manufactured in one place and should therefore cost the same around the world (although the index ignores, for example, differences in transport costs depending on where the iPod is shipped). Another variation was devised by the financial firm Bloomberg L.P., which compares the prices of IKEA Billy shelves.

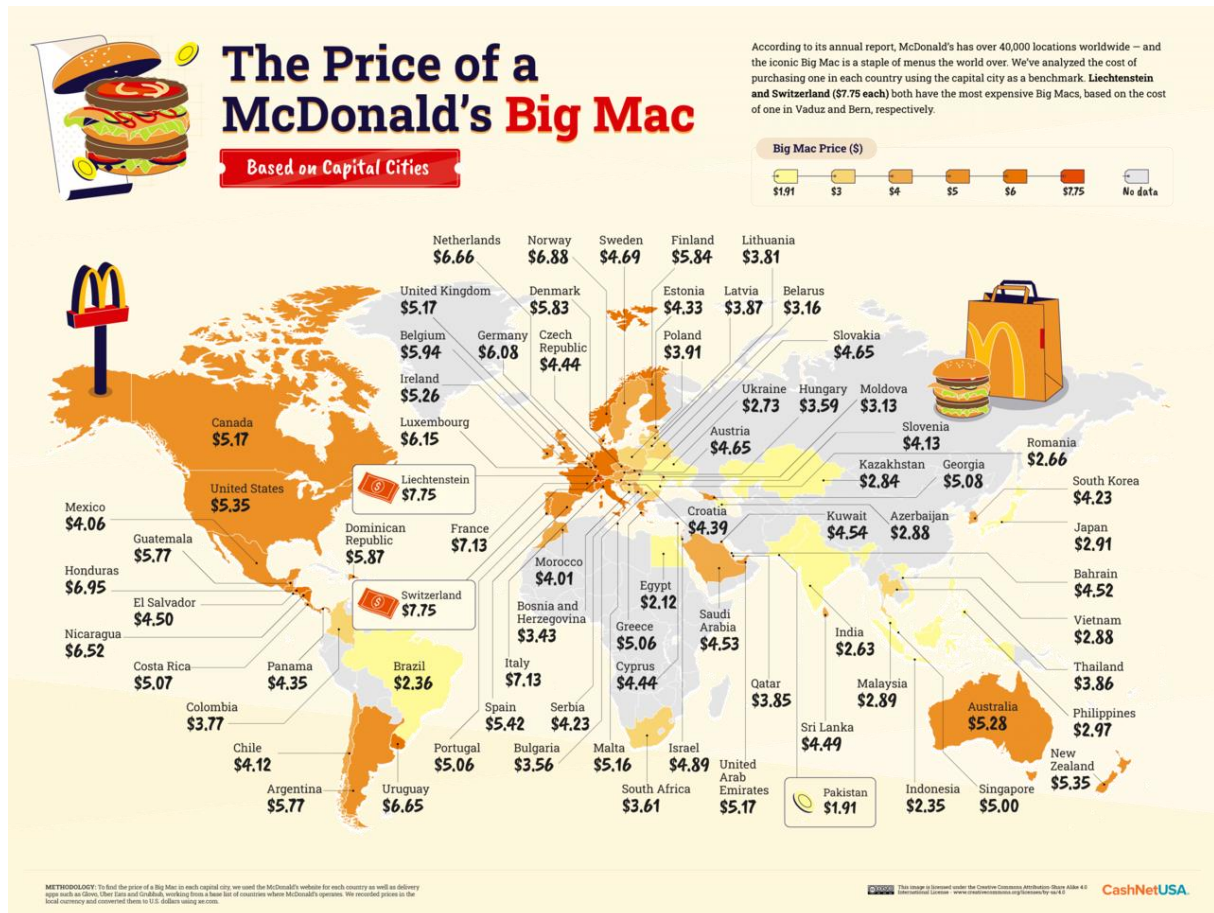
Arguments in favor of the Big Mac Index

The Big Mac Index has often been right, and exchange rates have moved in the direction predicted by the Index. For example, there has been a devaluation of a currency in which the Big Mac was particularly expensive. When expressed in terms of purchasing power parity, the Big Mac Index gives a better idea of the real purchasing power of people in a country than a simple conversion into US dollars based on current exchange rates.

Criticism of the Big Mac Index

Many factors are not taken into account when using the Big Mac Index. For instance, the cost of producing a burger in countries like China and India is significantly lower than in the US due to lower wages, rents, and other expenses. Therefore, the assumption that a burger should cost the same everywhere is not entirely realistic. Additionally, local taxes such as VAT, increased competition between different operators, and import duties on products can also distort the comparison.

In many countries, fast-food restaurants are significantly more expensive than local restaurants. Unlike in the US and European countries, these fast-food chains do not determine the everyday eating habits of many people. In many developing countries, the (often not very large) middle class tends to go to McDonald's, while the general population does not frequent these establishments as much. What all these indices have in common is that they compare products aimed at an urban, more affluent clientele. For the majority of people in developing countries, products like Big Macs, large lattes, IKEA shelves, or even iPods are unlikely to play a role in their lives. In this respect, it can be seen as cynical to measure their standard of living in terms of products that have nothing to do with their living environment and their real needs.



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Fact Sheet

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