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Currency Valuation and Purchasing Power Parity

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Abstract

This paper aims to highlight key limitations of “The Economist” magazine’s Big Mac Index (BMI). The Economist markets the BMI as a tool to determine valuation of currencies. This paper shows that the BMI is a misleading measure of currency valuation for economies whose markets are structurally different from the benchmark currency countries.

Keywords: Big Mac Index, currency valuation, purchasing power parity, international and regional price differences, border effect, brand perception

JEL Classification: E2, E3, F1, F2, F3, F4, F15, F23, F41

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