Using The Economist’s Big Mac Index for Instruction
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Abstract
The Economist first launched the concept of the Big Mac Index in 1986 as a guide to whether currencies were at their correct exchange rate; it is not intended to be a precise predictor of currency movements around the globe, but simply a way to make exchange-rate theory and discussions a bit more digestible. First used as a humorous illustration, the term “burgernomics” was coined and the Big Mac index became an annual occurrence. It is based upon one of the oldest concepts in international economics – the theory of purchasing-power parity, which argues that the exchange rate between two currencies should in the long run move towards the rate that equalizes the prices of identical bundles of traded goods and services in each country. In other words, a dollar should buy the same amount everywhere.

The reason the Big Mac Index is a better representation of world currencies is because McDonald’s Big Mac is made and distributed in over 120 countries on six continents. McDonald’s Big Mac is produced to more or less the same recipe in those countries, so the Big Mac Purchasing Power Parity (PPP) is an exchange rate that would leave hamburgers costing the same in each country, including the United States. The index can, however, be distorted by the local input costs and costs of transportation and distribution.

An undergraduate course, Food and Fiber Marketing, in the Department of Agricultural and Applied Economics at the University of Georgia is attended by students enrolled in many other disciplines and colleges than the agricultural economics field. Trying to engage their different learning styles and experiences to develop interactions between the students and the instructor requires some imaginative activities. Since they all seem to enjoy eating fast food, even if not a Big Mac, using the concept of the hamburger as a common currency intrigues them. Comparing the Big Mac PPP with the actual rates signals if a currency is under- or over-valued, which provides an application to the exchange rate and trade discussions without worrying about fluctuating currency/exchange rates. For instance, after its massive currency devaluation a decade ago, Argentina had the cheapest Big Mac at 78¢, while Switzerland had the most expensive Big Mac at $3.81, against the average American price of $2.49; the Argentine peso was the most under-valued currency at the time and the Swiss franc the most overvalued.

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