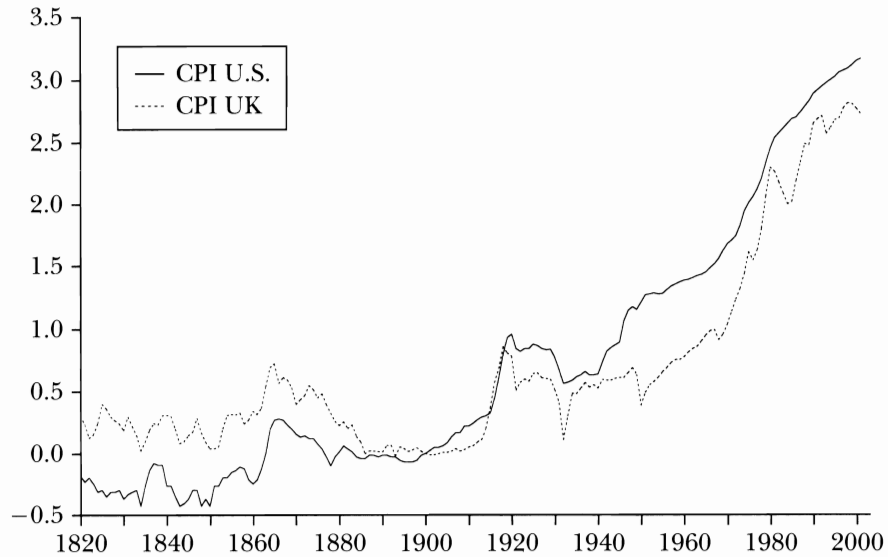


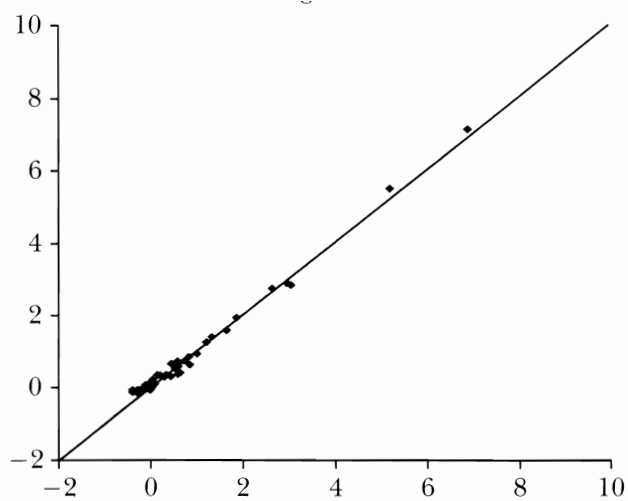
Economics W4505 : International Macroeconomics
Handout on Purchasing Power Parity
April 1, 2009

Figure 1: Dollar-Sterling PPP Over Two Centuries



Note: The figure shows U.S. and U.K. consumer price indices expressed in U.S. dollar terms over the period 1820-2001 using a log scale with a base of 1900=0. Source: Alan M. Taylor and Mark P. Taylor, "The Purchasing Power Parity Debate," *Journal of Economic Perspectives* 18, Fall 2004, 135-158.

Figure 2: Consumer Price Inflation Relative to the U.S. Versus Dollar Exchange Rate Depreciation, 29-Year Average, 1970-1998



Note: The figure shows countries' cumulative inflation rate differentials against the United States in percent (vertical axis) plotted against their cumulative depreciation rates against the U.S. dollar in percent (horizontal axis). The sample includes data from 20 industrialized countries and 26 developing countries. Source: Alan M. Taylor and Mark P. Taylor, "The Purchasing Power Parity Debate," *Journal of Economic Perspectives* 18, Fall 2004, 135-158.

The hamburger standard

	Big Mac prices		Implied PPP* of the dollar	Actual exchange rate: Jan 30th	Under (-)/over(+) valuation against the dollar, %
	in local currency	in dollars			
United States†	\$3.54	3.54	-	-	
Argentina	Peso 11.50	3.30	3.25	3.49	-7
Australia	A\$3.45	2.19	0.97	1.57	-38
Brazil	Real 8.02	3.45	2.27	2.32	-2
Britain	£2.29	3.30	1.55‡	1.44‡	-7
Canada	C\$4.16	3.36	1.18	1.24	-5
Chile	Peso 1,550	2.51	438	617	-29
China	Yuan 12.5	1.83	3.53	6.84	-48
Czech Republic	Koruna 65.94	3.02	18.6	21.9	-15
Denmark	DK 29.5	5.07	8.33	5.82	43
Egypt	Pound 13.0	2.34	3.67	5.57	-34
Euro area§	€3.42	4.38	1.04**	1.28**	24
Hong Kong	HK\$13.3	1.72	3.76	7.75	-52
Hungary	Forint 680	2.92	192	233	-18
Indonesia	Rupiah 19,800	1.74	5,593	11,380	-51
Israel	Shekel 15.0	3.69	4.24	4.07	4
Japan	¥290	3.23	81.9	89.8	-9
Malaysia	Ringgit 5.50	1.52	1.55	3.61	-57
Mexico	Peso 33.0	2.30	9.32	14.4	-35
New Zealand	NZ\$4.90	2.48	1.38	1.97	-30
Norway	Kroner 40.0	5.79	11.3	6.91	63
Peru	Sol 8.06	2.54	2.28	3.18	-28
Philippines	Peso 98.0	2.07	27.7	47.4	-42
Poland	Zloty 7.00	2.01	1.98	3.48	-43
Russia	Ruble 62.0	1.73	17.5	35.7	-51
Saudi Arabia	Riyal 10.0	2.66	2.82	3.75	-25
Singapore	S\$3.95	2.61	1.12	1.51	-26
South Africa	Rand 16.95	1.66	4.79	10.2	-53
South Korea	Won 3,300	2.39	932	1,380	-32
Sweden	SKR 38.0	4.58	10.7	8.30	29
Switzerland	CHF 6.50	5.60	1.84	1.16	58
Taiwan	NT\$75.0	2.23	21.2	33.6	-37
Thailand	Baht 62.0	1.77	17.5	35.0	-50
Turkey	Lire 5.15	3.13	1.45	1.64	-12

*Purchasing-power parity; local price divided by price in the United States

†Average of New York, Chicago, Atlanta and San Francisco ‡Dollars per pound

§Weighted average of prices in euro area **Dollars per euro

Sources: McDonald's; *The Economist*

Annual Consumer Price Inflation Relative to the U.S.
versus Dollar Exchange Rate Depreciation,
1970-1998

