Question and answer

Literature, Russian Literature

Big Mac The Big Mac index is also referred to as the Big Mac PPP and it is a survey that is dome by The Economist magazine. The Big Max Index is used to measure or determine the purchasing power parity among nations, using the value of a Big Mac as the yardstick. The Big Mac index recommends that change in transaction rates among currencies should influence the price that customers recompense for a Big Mac in certain, replacing the " basket" with the famous hamburger. The weakness of the Big Mac is not an internationally tradable commodity in that countries with low-cost Big Macs cannot export the burgers to high-cost countries. The theory requires that the goods should be tradable to enable high cost countries to import goods from low-cost countries; therefore, forcing currency values back to purchasing power parity.

The big mac index has relevance because although there are other methods of comparing efforts the Big Mac index receives a lot of attention. For example, the United Nations and the OCED are involved in the International Price Comparison Programme, which analyses a wide range of prices; hence, producing more demanding estimates of the exchange rates that would eradicate price dissimilarities between their members (Carbaugh 394).

I would not substitute it with a basket of goods index because it reflects more than just the cost of meat, bread and vegetables, but also non-tradable elements such as labor and rent; hence, comparing countries roughly at the same stage of development. The basket of goods looks at the non-tradable imports and services indicating that they should be alike in different countries.

The global consumption habits can be derived by establishing the international correlation risk where inequalities in food consumption should be determined. The basket of goods reflects the inequality in food consumption where the little there is in the food basket it reflects how the global market is working.

The between link currency and international trade is determined by various factors such as differential inflation where a country with low inflation rates exhibits a rising currency values. Secondly, the link between the two is differential interest rates where exchange, interest, and inflation rates are highly correlated because by manipulating interest rates the central banks exert influence over inflation. Additionally, the link between currency and international trade is brought about by public debt and current account deficits where some countries work with money that they do not have in their possession.

The Big Mac index reflects what happens in other countries currency in that, an undervalued currency gives a trade surplus because when the currency is undervalued other currencies tend to have more value (Black 256). For that reason, creating that trade surplus since individuals using the other currency tend to have more money. In order to avoid the effects of the undervalued currency, it is important to have floating exchange rates that are determined by the market forces.

Undervalued currency causes trade surplus meaning that there is a relationship between trade surplus and deficits when it comes to the value of currency. The Big Mac index gives a guideline on whether the currency is at the correct level; therefore, it is correct to say that the hypothesis is correct that the deficits and trade surplus are related to the value currency. This is because when the currency is undervalued the country tends to have more money in the economy that has no use to them.

Work cited

Black, Ken. Business Statistics: For Contemporary Decision Making. Hoboken, N. J: Wiley, 2011. Print.

Carbaugh, Robert J. International Economics. , 2013. Print.