

# Free critical thinking on global economics

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## **List of 10 countries (including the US) and their Big Mac index:**

Based on the above Table, the currencies that are undervalued are Britain, Chile, China, Costa Rica and the Philippines. The currencies that are overvalued are Switzerland, Australia, Brazil, Canada and Columbia.

Based on the PPP theory, it is shown that the Swiss franc is overvalued by 62.14%. The figure was derived by subtracting the US Big Mac price in US\$ from the Switzerland's Big Mac price in US\$. The difference is then divided by the US Big Mac price to get the percentage valuation of the Swiss franc which is 62.14%, as shown below:

$$\text{US\$ } 6.81 - \text{US\$ } 4.20 = \text{US\$ } 2.61$$

$$\text{US\$ } 2.61 / \text{US\$ } 4.20 = 62.14\% \text{ overvalued}$$

The PPP exchange rate reflects the real value exchange rate of the US\$ against the Swiss franc. However, in this case, it is observed that the Swiss franc is overvalued against the US\$. The overvaluation of the Swiss franc against the US\$ means that the currency value exceeds the purchasing power parity. In the long run, it is expected that the Swiss franc will depreciate against the US\$. A deviation from the PPP exchange rate which results in an overvaluation may be due to either inflation or some trade constraints. One reason why the Swiss franc is overvalued is because of the problems with the Euro which have encouraged investors to put their money in Swiss francs instead.

## **Works Cited**

Big Mac Index. "Big Mac Index 2013." 27 January 2013. bigmacindex.org. Web. 6 October 2013 .

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