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Everyone loves a good burger.

But what if we told you that the same burger moonlights as an economic tool?

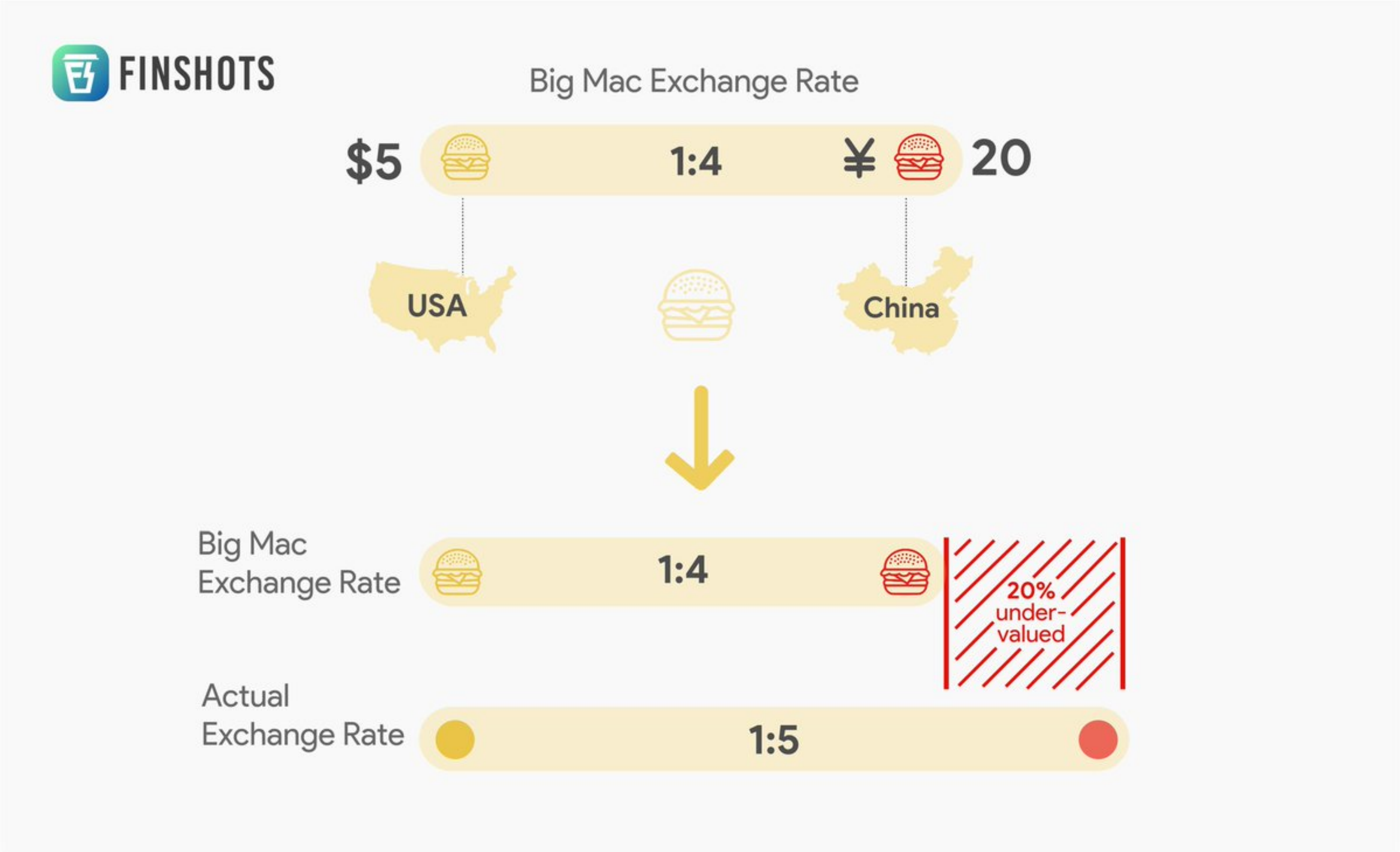
A thread...

Well, back in 1986, The Economist introduced the “Big Mac Index” to evaluate the value of currencies across countries via McDonald’s ubiquitous Big Mac burger & this concept came to be known as Burgernomics.

So how does it work?

Suppose a Big Mac costs $5 in the US and 20 Yuan in China. The Big Mac exchange rate would then be 5:20 or 1:4.

However, if the actual exchange ratio was 1:5, investors might predict that the Yuan is cheaper/undervalued by 20%.



Hence, the burger based index is premised on the idea that burger prices around the world can help you judge whether a currency is too cheap or too dear.

Why just the Big Mac though?

Well, for starters, McDonald’s has a phenomenally wide reach in the world, and the survey itself includes ~120 countries

Moreover, the Big Mac is mostly produced to the same specifications around the world & hence, the costs of producing the burger should be relatively standard.

However, in India, McDonalds doesn’t sell the Big Mac due to local sensitivities towards beef.

So the Economist takes into account the Maharaja Mac (which has chicken) as India’s entry to the Big Mac Index.

While The Economist itself states that the Big Mac index “should be taken with a grain of salt”, many economists say that it's roughly accurate, since the pricing of a Big Mac takes into account local costs of raw materials, taxes, etc.

And unorthodox, as it may be, it has now become a popular way of comparing currencies against each other & is widely used by traders in the forex market.

What are your thoughts on this?