

Economic News from Davos, Switzerland: How Much Does that Big Mac Cost?

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Thousands of delegates from hundreds of countries traveled to Davos, Switzerland last week for the World Economic Forum's annual meeting, which ended on January 24. You can bet that attendees, from CEOs to policy-makers, took time for a little skiing at the well-known resort. Off the slopes, however, they were discussing important economic and financial issues facing every corner of the globe.

The International Monetary Fund (IMF), a group of 188 countries that promotes global economic and financial stability, gave them lots to talk about. This week, the organization published its quarterly *World Economic Outlook Update*, lowering its global economic growth forecast by the most in three years. In other words, many economies around the world are weakening despite the fact that oil prices are going down, which often helps to stimulate economic growth.

Value Meal?

Money was top-of-mind for lots of Davos visitors, and not only during their WEF seminar sessions. Those paying in currencies other than the Swiss franc suffered from major sticker shock as a result of a big change made in mid-January by Switzerland's central bank. The Swiss National Bank unpegged the Swiss franc to the euro, causing the franc to shoot up in value. With no cap on the exchange rate, everything has become very expensive for visitors from other countries paying with outside currencies like the dollar. Costs increased by 20%.

Tom Keene, an editor for Bloomberg News who is in Davos this week, shared with *Here & Now* radio host Jeremy Hobson a good example of the severe financial effects of a stronger Swiss franc. In this case, Keene represents the export economy, by which a country grows when it sells its goods and services. But when those goods and services are extremely expensive, fewer people are likely to buy, thus hurting the economy. "I had a No. 2 Value Meal at the McDonald's next to our Zurich news bureau and it came in at \$14.93 for a cheeseburger, small fries and a Coke," noted Keene. What might he pay for this in the U.S.? \$4.95. "You see the Swiss export economy," added Keene. "They are crushed by a stronger Swiss franc."

This brings us to even juicier economic news hitting the headlines in the last several days. Call it global exchange rates — *to go*. *The Economist* magazine published its latest Big Mac Index, a guide that uses the price of a McDonald's Big Mac to help us understand whether currencies around the world are at their correct levels. The index is used to measure the purchasing power parity between nations, using the price of the Big Mac as the benchmark. Purchasing power parity is the economic concept that over time, different currencies should adjust so that a basket of identical goods costs the same everywhere. In this case, that basket is the Big Mac burger. *The Economist* explains it like this:

[“Buying a Big Mac in Denmark, for example, costs \\$5.38 at market exchange rates compared with \\$4.79 in America, so our index suggests the Danish krone is 12% overvalued.”](#)?

What country has the most expensive Big Mac? You got it — Switzerland.

[“The average price for a Big Mac in Switzerland in January 2015 is \\$7.54 or 6.50 Swiss franc, compared with \\$4.79 for a Big Mac in America”](#)?

. The same burger costs 57% more in the Swiss currency, making the franc the most overvalued currency in the Big Mac Index. You can get a great deal on a Big Mac by paying with your U.S. dollar in Ukraine, where McDonald's signature burger will cost you \$1.20. According to *The Economist*, the latest Big Mac Index does suggest some interesting world currency trends over the last six months: “Currency markets have bubbled like potatoes in a fryer as the oil price has fallen to finger-licking lows and central banks have cooked up new monetary stances.”

Conversation Starters

Review three economic concepts from the article and discuss them in a group. What, in particular, have you learned about Switzerland and the franc?

Research the Big Mac Index using the “Related Links” below. Which countries have undervalued and overvalued currencies? Where will the U.S. dollar get you the most value?

Have you had any personal experience with exchange rates when you travel? What were they? What did you learn?

Oil prices are mentioned a few times in the article. Research the economic impact of falling oil prices using the Knowledge@Wharton (K@W) article linked below. What might that mean for the world economy?

Related Links

- [K@W: Beyond the Gas Pump: A New World Order for Oil](#)
- [World Economic Forum](#)
- [The Economist's Big Mac Index](#)
- [The Guardian: What a \\$7.54 Big Mac Tells Us about Global Currencies](#)
- [New York Times Topics: The Economy](#)
- [KWHS: The Greatest Risks Facing Our World Economy](#)
- [KWHS Lesson Plan: Money What Is It Good For?](#)