

## International Hourly wages by the price of Big Mac

The Mc Donald's corporation is the leading global food service retailer with more than 30,000 local restaurants serving nearly 50 million people in more than 119 countries each day. This global presence, in addition to its consistency in food offerings and restaurant operations, makes McDonald's a unique and attractive setting for economists to make salary and price comparisons around the world. Because the Big Mac hamburger is a standardized hamburger produced and sold in virtually every McDonald's around the world, the Economist, a weekly newspaper focusing on international politics and business news and opinion, as early as 1986 was compiling information about Big Mac prices as an indicator of exchange rates. Building on this idea, researchers Ashenfelter and Jurajda proposed comparing wage rates across countries and the price of a Big Mac hamburger. Shown below are Big Mac prices and net hourly wage figures (in U.S. dollars) for 27 countries. Note that net hourly wages are based on a weighted average of 12 professions. Use the data Mc Donald's

1. Is there a relationship between the price of a Big Mac and the net hourly wages of workers around the world? If so, how strong is the relationship?
2. Is it possible to develop a model to predict or determine the net hourly wage of a worker around the world by the price of a Big Mac hamburger in that country? If so, how good is the model?
3. If a model can be constructed to determine the net hourly wage of a worker around the world by the price of a Big Mac hamburger, what would be the predicted net hourly wage of a worker in a country if the price of a Big Mac hamburger was \$3.00?

*Sources: McDonald's Web site at: <http://www.mcdonalds.com/corp/about.html>; Michael R. Pakko and Patricia S. Pollard, "Burgernomics: A Big Mac Guide to Purchasing Power Parity," research publication by the St. Louis Federal Reserve Bank at: <http://research.stlouisfed.org/publications/review/03/11/pakko.pdf>; Orley Ashenfelter and Stepán Jurajda, "Cross-Country Comparisons of Wage Rates: The Big Mac Index," unpublished manuscript, Princeton University and CERGEI/Charles University, October 2001; The Economist, at: <http://www.economist.com/index.html>.*