

Why Big Macs Are Cheap In Argentina

A blog about business and economics.



The Big Mac is an icon of globalization and as such becomes a useful tool for various explorations of international economics. The Economist runs a regular feature called the Big Mac Index where they look at the price of a Big Mac in local currency and show you which countries have unusually expensive or unusually cheap Big Macs. That's a form of Purchasing Power Parity analysis and you can spin the whole saga out into a whole tale about economic development if you care to. But if you look at the photo above of a McDonalds menu in Buenos Aires (note that in Argentina the

"\$" sign means pesos not dollars) you'll see an interesting price anomaly around the Big Mac. It's cheaper than a Quarter Pounder. It's so cheap that a Big Mac and a Hamburger combined are cheaper than a "Triple Mac" even though a Triple Mac is just a Big Mac with an extra burger patty.

What's more, even though that sign is in the store on a wall somewhere, the big displays that are clearly visible while you're standing in line don't so much as advertise the existence of the Big Mac. Instead, the Argentine McDonaldses are all about pushing you to buy a Triple Mac or a Cuarto de Libre. What gives?

Well, it's all a sordid tale of capital controls and fuzzy math. Some time ago, Argentina defaulted on its debt and ever since Argentine households are inclined to hold a substantial share of their savings abroad in foreign-denominated assets. But the Argentine government wants to limit capital flight so they've put curbs on how much foreign exchange an Argentine can buy. This in turn has led to a dual exchange rate system. Officially, a dollar is worth about 4.2 pesos. Unofficially, you can get more pesos for your dollar on the black market. Hostile press reports I've read suggest the black market rate is 5 pesos to the dollar. In practice, I wasn't able to get a deal that good from either of the people I traded under the table with but still I got a substantial discount vis-a-vis the official rate. But the real state of Argentina's currency is visible in the rising price level, since the country engages in a lot of trade. The government, however, insists that the inflation rate is considerably lower than independent observers say. The Big Mac Index is one well-known international check on government number-fudging, and the Economist's editorial line is very hostile to the kind of populist economic policies Cristina Kirchner has pursued, so the government knows it's vulnerable to the wrath of the index. To that end, the Argentine state leaned on Argentina's McDonaldses to exercise restraint in their Big Mac pricing. That, in turn, has led the McDonaldses to radically de-emphasize the suddenly non-profitable signature sandwich in favor of the Triple Mac and other offerings.