

# Exchanging blows

## Our Big Mac index shows the Chinese yuan is still undervalued

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RECENT renewed American calls for China to revalue its currency have so far fallen on deaf ears. China has rejected accusations that America's huge trade deficit with it is caused largely by an artificially weak yuan, which has been pegged to the dollar since July 2008. Economists point out that a depreciation of the yen did little to help reduce America's trade deficit with Japan in the 1980s. But the yuan is unquestionably undervalued. Our Big Mac index, based on the theory of purchasing-power parity, in which exchange rates should equalise the price of a basket of goods across countries, suggests that the yuan is 49% below its fair-value benchmark with the dollar.

