

International Price Comparisons – Purchasing Power Parities vs. Exchange Rates

Frederic A. Vogel

The World Bank

Washington, USA

Email: fvogel@worldbank.org

Abstract: The globalization of the World's economies accompanied by increased emphasis on policies to reduce poverty is increasing awareness for international standards for economic statistics to ensure data are comparable across countries. Through an effort led by the United Nations, the 1993 system of national accounts (SNA) provides a common framework that ensures economies are measured the same way across countries. The Gross Domestic Product (GDP) and its components provide a basis to measure the relative sizes of economies and when evaluated on a per capita basis provide the economic well being of the people. Before these measures can be compared across countries, they have to be converted to a common currency.

The report of the United Nations Secretary-General (02/04/2003) stated that “three quarters of the world's poor live in rural areas of developing countries and depend on agriculture and related activities for their livelihood. The World Bank provides poverty data based on \$1 or \$2 a day of expenditures per person. Again, national expenditures have to be converted to a common currency, in this case the United States dollar, to make these comparisons across countries.

While exchange rates can be used for these conversions, these are deficient because they do not reflect price level differences caused by non traded goods and services, capital movements, and government interventions. The purpose of the International Comparison Program is to calculate Purchasing Power Parities (PPPs) to provide comparable measures of economic levels and well being across countries that are free of price and exchange rate distortions.

An overview of the underlying theory and practice to compute PPPs will be provided with an emphasis on how it relates to economic and policy issues related to agriculture and rural development. Examples of data from the Asian region will be used to illustrate how the PPPs and related measures can be used to better understand the economic situation across countries.