

## **Session: Ethical Financing of Community Engagement Abroad**

**Segment:** *What to Pay Local People: Purchasing Power Parity (PPP) as a Method for Fair Pay Abroad*  
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### **PPP Long Method**

Step 1: Determine how much person would be paid in the United States

Step 2: Look up the PPP conversion factor on the website of the United Nations Statistics Division, using the following path: [unstats.un.org](http://unstats.un.org) > Millennium Development Goals > Data > Country Level Data > Goal 1 (folder icon) > Target 1.A (folder icon) > Purchasing power parities conversion factor, local currency unit to int'l dollar (clipboard icon). Then highlight "All" under "Countries" and click "View Data."

Step 3: Multiply the figures from Steps 1 and 2.

Step 4: Find market exchange rate from end of same year as conversion factor, using the historical charts on a recognized exchange rate website. One option is Oanda.com.

Step 5: Divide figure from Step 3 by figure from Step 4.

### **PPP Short Method**

Step 1: Determine how much person would be paid in the United States

Step 2: Look up the National Price Level ratio (PPP conversion factor to market exchange rate) at <http://wdi.worldbank.org/table/4.16>.

Step 3: Multiply the figures from Steps 1 and 2

### **Further reading:**

Krugman, Paul, Maurice Obstfeld, and Marc J. Melitz (2010). *International Economics: Theory and Practice*. Pearson Education, Inc.

Ong, Li Lian (2003). *The Big Mac Index: Applications of Purchasing Power Parity*. Palgrave Macmillan.

Pakko, Michael, and Patricia Pollard (2003). "Burgernomics: A Big Mac Guide to Purchasing Power Parity." Federal Reserve Bank of St. Louis. (available online)

Taylor, Alan, and Mark Taylor (2004). "The Purchasing Power Parity Debate." *Journal of Economic Perspectives*, Fall 2004. (available online)