



A Multi-Faceted Outlook at Purchasing Power Parities

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Purchasing Power Parities (PPPs) are both price relatives and spatial deflators used as real/alternative currency converters to compare the performance of economies around the world. In their simplest form, PPPs show the ratio of prices in national currencies of the same precisely defined product in different countries. Initially, the Gross Domestic Products (GDPs) of different economies are not comparable because they are expressed in national currencies and valued at national price levels; however, after PPPs are applied, the GDPs are converted to a common currency and are revalued at a uniform price level. As a result, differences between the GDPs reflect only differences in the volumes of final goods and services purchased. The GDP volumes generated through the use of PPPs thus facilitate comparisons of the economic size of countries and, when put on a per capita basis, the economic welfare of their populations. Furthermore, they can be used to compare the overall productivity and investment potential of countries, to monitor the incidence of poverty, to assess the real salary of employees, or even simply to compare the price of different household consumption goods and services across countries. Thus, the numerous uses of PPPs are not limited to international organizations and regional agencies but also extend to a wide variety of users at the national level such as government agencies, universities, research institutes, public enterprises, private firms, banks, journalists, and individuals such as employees, tourists and students. The various applications of the PPPs as real currency converters and the corresponding economic price level indicators (PLIs) helped raise awareness of their importance among professionals and non-professionals and underlined the presence of a definite need for the production of more frequent PPP estimates worldwide.

Keywords: PPP; PLI; Real GDP; Currency Converter; Price Comparison.