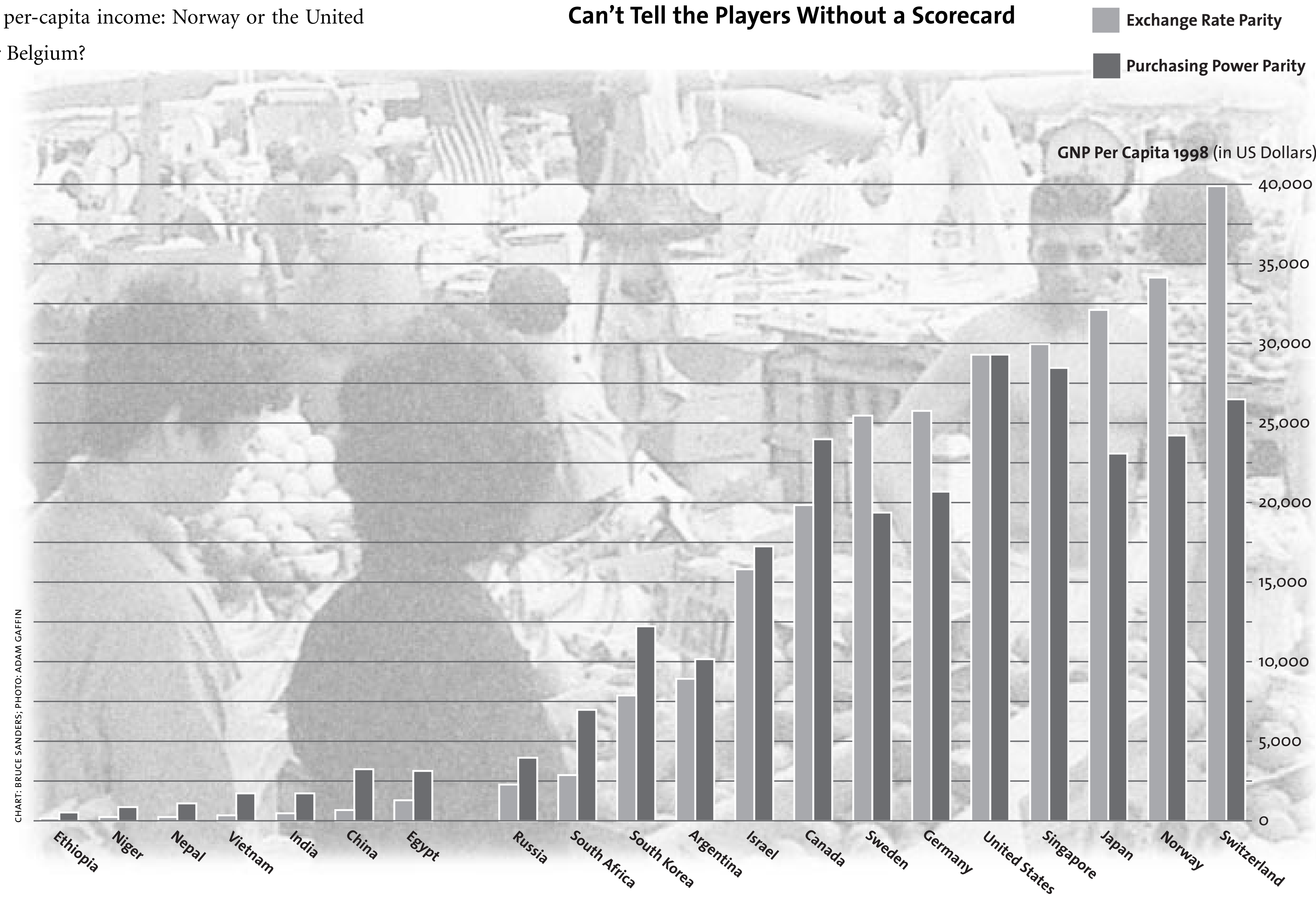
Quick. Which country has a higher per-capita income: Norway or the United States? Switzerland or Singapore? Japan or Belgium?

Yes, those are, indeed, trick questions. For the answers depend on whether you are comparing incomes according to international currency exchange rates or according to "purchasing power parity" – the value of the currency when buying the whole range of traded and untraded goods and services. Purchasing Power Parity, the lesser-known index, tells you a lot about relative living standards. So it is not surprising that the World Bank puts a lot of time and effort into measuring PPP.

A few things worth noting.

- Nobody really can survive on a few hundred dollars' worth of goods and services a year – which is why the PPP measure of income for extremely poor countries like Nepal and Niger is typically four or five times greater than the pittance measured at exchange rate parity.
- The United States looks a whole lot better in PPP terms than in exchange rate terms, which is why travel in northern Europe and Japan is so expensive for those of us who get our paychecks in dollars.
- The Chinese economy, which looks pretty big to dollar-bound exporters, looks much, much bigger from the inside. Indeed, with a PPP per capita GNP of $3,200 it is the second largest economy in the world!

The Purchasing-Power Puzzle:
Can't Tell the Players Without a Scorecard



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