

External stimulus / fiscal stimulus / stimulus packages have become common terms after the world suffered one of its worst meltdowns.

Let's try and understand what they conceptually mean with the help of an interesting story...







- In a small town in the US, the weather is horrendous and hence, despite being a holiday season, business is not picking up.
- Earnings and profits being affected, everyone is in debt.
- ☐ Luckily, a rich Russian tourist arrives in the foyer of the small local hotel.



He asks for a room and puts a \$1000 note as advance on the reception counter and books a room for use after 7 days.

The hotel owner takes the banknote in a hurry and rushes to his meat supplier to whom he owes \$1000.

Now...

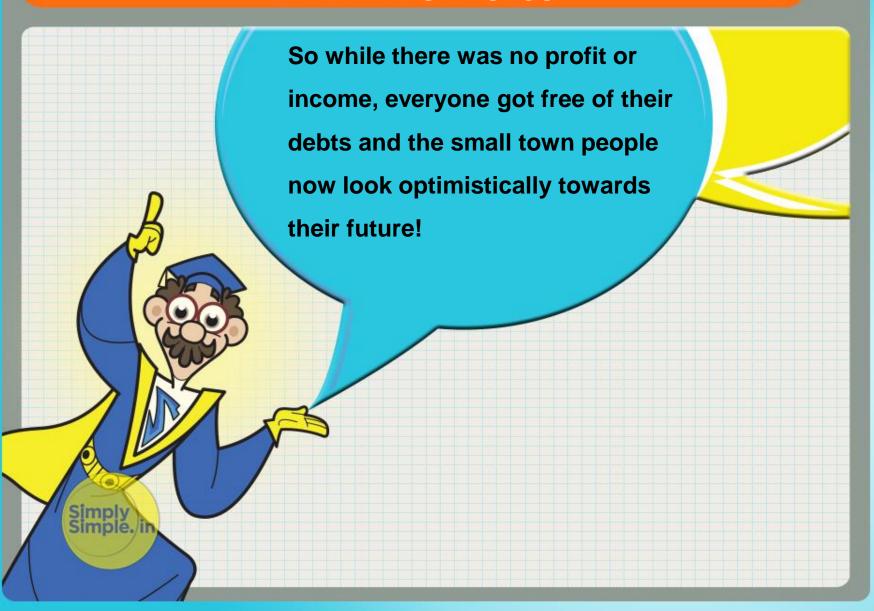
- ☐ The butcher takes the money and races to his wholesale supplier to pay his debt.
- The wholesaler rushes to the farmer to pay \$1000 for pigs he purchased some time ago.
- The farmer triumphantly gives the \$1000 note to a local cook who cooked food for him on credit.



☐ The cook goes quickly to the hotel, as she owed the hotel for using their kitchen.

■ But here's the twist in the tale: The Russian comes back after 7 days and informs the hotel owner that his plan of staying in the hotel is cancelled and takes his \$1000 advance back and departs.

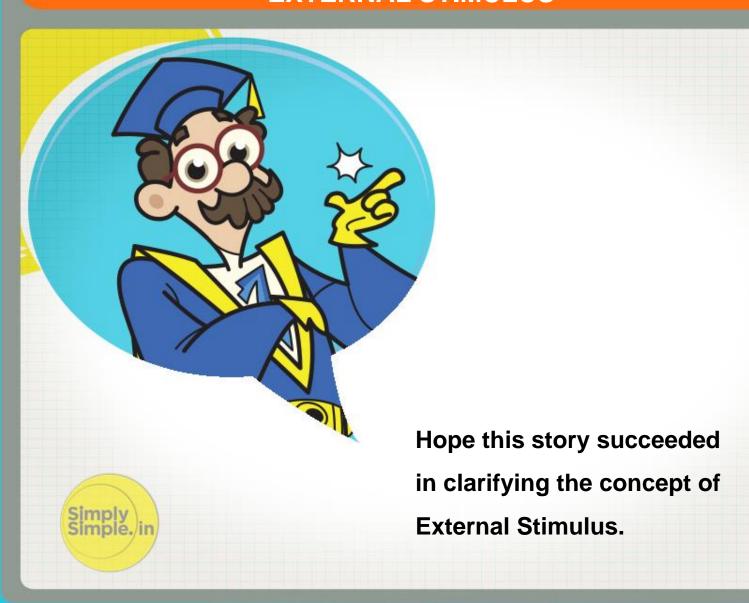


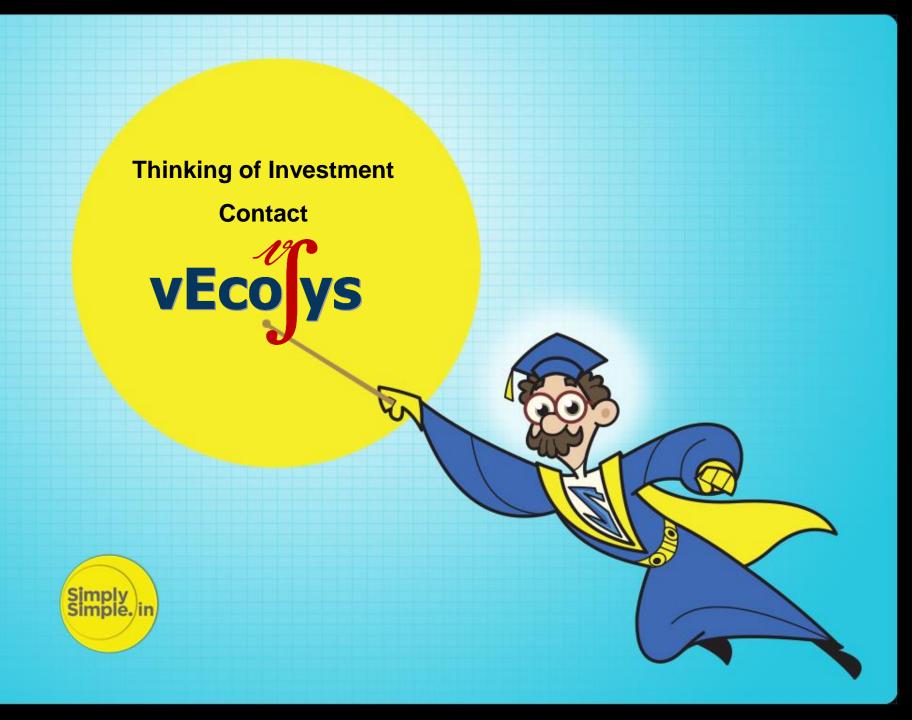


☐ Thus the fiscal stimulus of the \$1000 advance was the liquidity that got circulated within the economy and improved sentiments of the various stakeholders by making them get rid of their debt.

Once debt-free, people would happily resume their consumption, giving the various players in the economy a boost.







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