

EXTERNAL STIMULUS



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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...



Understanding External Stimulus



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- ❑ 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.

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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.



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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.



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- ❑ 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.



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So while there was no profit or income, everyone got free of their debts and the small town people now look optimistically towards their future!



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- ❑ 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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**Hope this story succeeded
in clarifying the concept of
External Stimulus.**



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