

Supplementary Notes on Chapter 4 of *Macroeconomics* by N. Gregory Mankiw

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An illuminating joke

In a little known one- horse East Texas town near Long View Texas there is one road in and one road out. The town is suffering severely from the great depression of 2009. Money is as scarce as hen's teeth. A wealthy traveling salesman walks into the ancient hotel, the only hotel in town and lays a nice crisp \$100 dollar bill on the hotel counter and announces to the hotel owner that he is going to walk upstairs to inspect the rooms.

- The hotel owner picks up the \$100 dollar bill, smiles, and sticks it in his shirt pocket. He walks out of the hotel and enters the Cafe next door. The entire town has been running on credit since the depression began. The hotel owner owes the Cafe owner a \$100 dollar bill for services rendered at the hotel.
- The Cafe owner picks up the \$100 dollar bill, smiles, and sticks it in his shirt pocket. He walks out of the Cafe and walks next door to the butcher shop. The entire town has been running on credit since the depression began. The Cafe owner owes a \$100 dollar bill to the butcher for meat that was served at the hotel.

An illuminating joke

- The butcher picks up the \$100 dollar bill, smiles, and sticks it in his shirt pocket. He walks out of the butcher shop and walks across the street to a prostitute standing on the corner. The entire town has been running on credit since the depression began. The butcher owes a \$100 dollar bill to the prostitute for secret services rendered on credit.
- The prostitute picks up the \$100 dollar bill, smiles, and sticks it inside her bra. She walks across the street to the hotel. The entire town has been running on credit since the depression began. The prostitute owes a \$100 dollar bill to the hotel owner for rooms she used on credit. The hotel owner smiled, accepted the money and laid the nice crisp \$100 dollar bill back on the counter.
- The wealthy salesman comes back downstairs, and states that the rooms were not acceptable, picked up the \$100 bill from the counter, and walked out the door.

An illuminating joke

In the end, all the books were balanced, the economy continued as normal, and everyone was happy, except for the salesman who still needed a room. This is the story of the American Economy.

An illuminating joke (continued)

An illuminating joke (continued)

- It is said that the story above explains how monetary policies work: They basically have nothing to do with the real part of the economy.

An illuminating joke (continued)

- It is said that the story above explains how monetary policies work: They basically have nothing to do with the real part of the economy.
- Do you agree with the conclusion of the story? Why?