The Cartoon Introduction to Economics
Volume Two: Macroeconomics

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THE CLASSICAL VIEW OF TRADE

THE ECONOMY IS LIKE A WELL-OILED MACHINE,...

...AND TRADE GIVES IT A TURBO BOOST!
THE WAY THAT CLASSICAL ECONOMISTS LIKE ADAM SMITH LOOK AT INTERNATIONAL TRADE IS SIMPLE AND POWERFUL...

"If a foreign country can supply us with a commodity cheaper than we ourselves can make it... better buy it [from] them with some part of the produce of our own industry, employed in a way in which we have some advantage."

... AND COMES DIRECTLY FROM THE VIEW THAT THE MACROECONOMY IS LIKE A WELL-ORGANIZED FAMILY.

"It is the maxim of every prudent master of a family... never to attempt to make at home what it will cost him more to make than to buy."

ALTHOUGH TRADE CREATES LOSERS AS WELL AS WINNERS, CLASSICAL ECONOMISTS FOCUS ON THE GAINS TO SOCIETY AS A WHOLE.

Trade is pretty awesome... just like technological progress!
CLASSICAL ECONOMISTS ALSO EMPHASIZE THAT TRADE BETWEEN TWO COUNTRIES CAN BENEFIT BOTH COUNTRIES.

JUST LIKE TRADE BETWEEN TWO PEOPLE...

...CAN BENEFIT BOTH PEOPLE!

IN 1817 DAVID RICARDO’S THEORY OF COMPARATIVE ADVANTAGE SHOWED THAT THESE MUTUAL BENEFITS ARE POSSIBLE WHEN COUNTRIES ARE DIFFERENT...

PORTUGAL HAS A GOOD CLIMATE FOR GROWING GRAPES.

ENGLAND HAS A GOOD CLIMATE FOR GROWING WHEAT.

LET'S TRADE BOTTLES OF WINE FOR BAGS OF FLOUR!

...BUT MODERN ECONOMISTS BELIEVE THAT MUTUAL BENEFITS ARE POSSIBLE EVEN WHEN COUNTRIES ARE SIMILAR.

SWEDES MAKE VOLVOS.

GERMANS MAKE BMWs.

WE CAN BOTH GAIN FROM TRADE!

PAUL KRUGMAN WON THE 2008 NOBEL PRIZE FOR HIS WORK IN THIS AREA.

AND IF WE EVER START TRADING WITH OTHER PLANETS, I CAN EXPLAIN THAT TOO!

CONGRATULATIONS, YOU WIN THE NOBEL PRIZE!
Without you, Mrs. Taylor, my life would be threadbare!

Oh, bless your soul, Mr. Shoemaker.

...but you can also easily see the benefits of trading with other countries...

Look, here comes Monsieur Chapeau!

Without the French, I don’t know how we’d get ahead.
...or even with aliens.

Take me to your leading economist.
You might not think that Adam Smith would have much to say about aliens...

Life on other planets?
I'm still getting used to the idea of life in South America.

..., but in fact classical economics teaches us an important lesson about interstellar trade:

If we encounter beings from another planet...

... and if both sides engage peacefully in free trade...

Or if they encounter us!
Want this candy bar? Then you have to trade me for it...

... and no bullying!

... then this alien encounter would be pretty awesome for both sides.

I'm better off, and so is my new friend Zantrok!

Zeekrox floudz, hoogha hoo ghow zgr Steve!
We earthlings would benefit regardless of whether the aliens were *less advanced* than us...

...or *more advanced.*

Cancer? Heck, we cured that *eons ago.*

Life was much harder before we humans discovered the planet Gxhsnael! Life was much harder before the Gxhsnaelians discovered planet earth!

...so need a hand with that?

CANCER? HECK, WE CURED THAT EONS AGO.

Plus there would be added benefits from sharing new varieties of food and arts.

Can you believe that the price of admission is just *one avocado?*

WHAT'S AN AVOCADO?

WHAT'S AN AVOCADO?
Of course, there would be a downside: interstellar trade would create losers as well as winners.

But classical economists respond to concerns about outsourcing...

...by pointing out that families engage in outsourcing too.

Whether you're a family, a country, or a planet, outsourcing allows you to focus on what you're good at.

We'll make jetpacks...

...we'll make pharmaceuticals...

...and we'll all gain from trade!
The idea that outsourcing is good for society may seem shocking...

But remember that classical economists view the economy as a finely tuned job-creating machine.

This also explains why classical economists believe that the best thing about trade isn’t exporting...

...but importing.

Everybody always talks about how trade creates jobs...

...but what’s really great is all the cool stuff we can buy.

As always, this classical view parallels the perspective of a well-organized family.

There’s always work to do here at home.

So the only reason to get a job working for somebody else...

...is to get money so you can buy stuff!
CLASSICAL ECONOMISTS ALSO TAKE AN UNEXPECTED POSITION ON ISSUES OF UNFAIR COMPETITION...

...LIKE CURRENCY MANIPULATION...

THEY'RE KEEPING THEIR CURRENCY ARTIFICIALLY CHEAP TO PROMOTE THEIR EXPORTS!

...AND DUMPING.

THEY'RE EXPORTING RAY GUNS TO US AT PRICES BELOW THEIR COST OF PRODUCTION,

THAT'S DUMPING, AND THAT'S NOT FAIR...

...THEY'RE TRYING TO STEAL THE MARKET!

THE CLASSICAL VIEW OF THESE ACTIVITIES IS THAT YOU SHOULDN'T WORRY ABOUT THEM.

CURRENCY MANIPULATION AND DUMPING ARE GOOD FOR US.
And once again there is a parallel with families.

As with outsourcing, this classical view is driven by a confident attitude about job creation...

We earthlings might have to stop making ray guns, but the economy will create jobs elsewhere.

It’s creative destruction!

...and by a focus on imports, not exports.

Currency manipulation and dumping mean that we pay less for the stuff we want!

Would you complain if Mr. Shoemaker was selling you boots at prices that were too low?

Well, no.

Duh.

Then don’t worry, be happy!

And once again there is a parallel with families.
As we'll see in the next chapter, this classical perspective can be a little simplistic.

Nonetheless, classical economics contributes valuable ideas to discussions of free trade, whether it’s with a neighboring planet...

Why fight aliens when we can trade with them?

...or with a neighboring household or country.

"Commerce...ought naturally to be, among nations, as among individuals,... a bond of union and friendship..."
Praise for *The Cartoon Introduction to Economics, Volume One: Microeconomics*

“People don’t usually chuckle over unemployment, inflation, and recessions, but they’ll get plenty of laughs out of this book—and a good introduction to macro too.”
—Eric Maskin, Nobel Laureate in Economics

“Learning economics should be fun, Klein and Bauman make sure that it is.”
—N. Gregory Mankiw, Professor of Economics, Harvard University, and author of *Principles of Economics*

“Bauman and Klein present solid basic economics in a brilliant cartoon wrapper.”
—Hugo Sonnenschein, Distinguished Service Professor and President Emeritus, University of Chicago

Need to understand today’s economy? This is the book for you. *The Cartoon Introduction to Economics, Volume Two: Macroeconomics* is the most accessible, intelligible, and humorous introduction to unemployment, inflation, and debt you’ll ever read.

Whereas *Volume One: Microeconomics* dealt with the optimizing individual, *Volume Two: Macroeconomics* explains the factors that affect the economy of an entire country, and indeed the planet, it explores the two big concerns of macroeconomics: *how economies grow* and *why economies collapse*. It illustrates the basics of the labor market and explains what the GDP is and what it measures, as well as the influence of government, trade, and technology on the economy. Along the way, it covers the economics of global poverty, climate change, and the business cycle. In short, if any of these topics have cropped up in a news story and caused you to wish you grasped the underlying basics, buy this book.

“IF YOU DON’T WANT TO CRY ABOUT THE STATE OF THE ECONOMY, WHY NOT LAUGH INSTEAD? THIS BOOK IS AN IDEAL INTRODUCTION TO MACROECONOMICS FOR ANYBODY WHO THINKS THEY OUGHT TO UNDERSTAND WHAT’S HAPPENING AROUND THEM BUT IS PUT OFF BY DENSE TEXT AND ECONOMICS JARGON.”
—Diane Coyle, Author of *The Economics of Enough*