

YouTube Title: “The Broken Window Fallacy (no accents)” <http://www.youtube.com/watch?v=QG4jhIPLVVs>
Video Length: 3:31 minutes

Chapter 11: Fiscal Policy, p. 228

Topic: Fiscal Stimulus, p. 230

Key Terms: Government spending, fiscal stimulus, job creation, opportunity cost, there is no free lunch

Learning Objective 2: The desired scope and the tools of fiscal stimulus.

Chapter 1: The Challenge of Economics, p. 2

Topic: Scarcity: The Core Problem, p.4

Key Terms: Government spending, fiscal stimulus, job creation, opportunity cost, there is no free lunch

Learning Objective 1: How scarcity creates opportunity cost.

Summary

This video portrays Bastiat’s parable of the broken window and illustrates “*That Which is Seen, and That Which is Not Seen.*”

Economic Application

The increased production and employment associated with war, disasters and catastrophes lead some to claim that they are beneficial for the economy. This thinking is an example of the broken window fallacy. The money spent on the war effort and rebuilding is money that cannot be spent on food, clothing, health care, consumer electronics or other areas. The stimulus felt in one sector of the economy comes at a direct *unseen* cost to other sectors. The broken window fallacy can also be seen when the government spends money on public works projects.

Multiple-Choice Question

What point from the parable of the broken window exposes the fallacious view that war, disasters, and catastrophes create wealth?

- a) Physical damage destroys wealth.
- b) Remains at the core of mainstream policy decision making.
- c) Government public work projects come at the expense of citizens in the form of higher taxes or inflation.
- d) Examples include war-time spending, tariffs, and stimulus packages.
- e) All of the above expose the fallacy.

Discussion Question

What is meant in the parable by Frederic Bastiat’s phrase “What Is Seen and What Is Not Seen”?