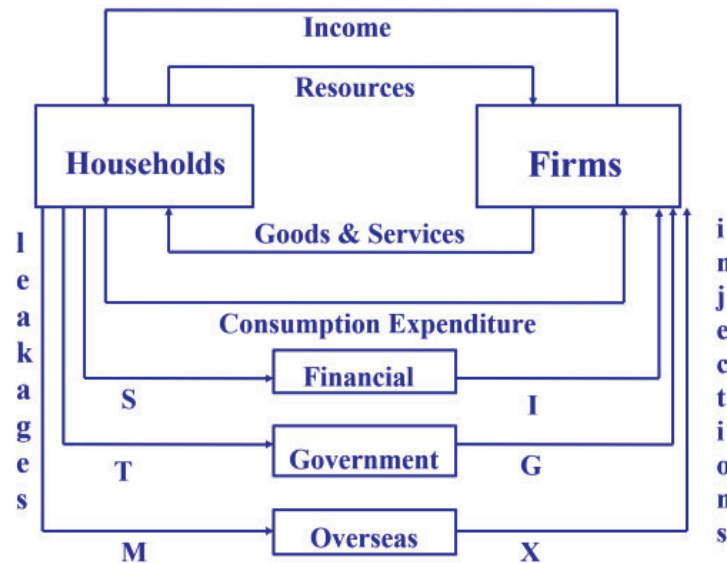

MACROECONOMICS

TABLE OF CONTENTS

Circular flow	1
Gross Domestic Product	2
Inflation	5
Unemployment	8
Aggregate demand and supply	10
Trade and protection	11
Exchange rates	14
The financial sector	16
Monetary policy	18
Fiscal policy	19
Macroeconomic management	23

CIRCULAR FLOW

Circular flow – a simple model of all participants in the economy; make more sense of the complex real and money flows between various economic units



2 sector flow

- Firms generate income (Y) for hh as they contribute their resources
- Y = value of g/s produced
- Y is used by hh to spend on g/s (E)
- Firms use the sales to pay income for resources
- Equilibrium: $Y = E$

	Leakages	Injections
Financial sector	<i>Savings (S)</i>	<i>Investment (I)</i>
	Deposits taken from households as not yet spent income	Firms borrow money from banks to invest in the production
Government	<i>Taxation (T)</i>	<i>Government expenditure (G)</i>
	Households' income not spent but contribute to government budget	Creates employment and income e.g. welfare payment, subsidies
Overseas	<i>Imports (M)</i>	<i>Exports (X)</i>
	Payments to foreign businesses for their g/s	Foreign expenditure to local businesses for g/s

EQUILIBRIUM