MACROECONOMICS

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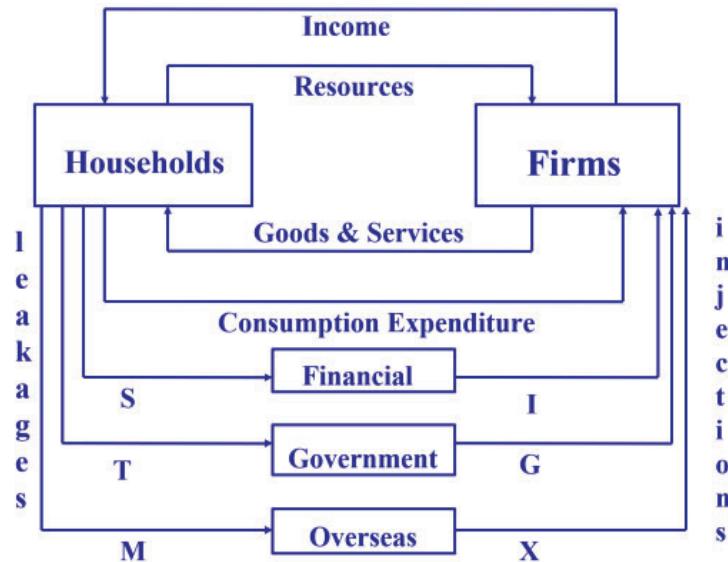
2 sector flow
- Firms generate income (Y) for hh as they contribute their resources
- Y = value of g/s produced
- Y is used by hh to spend on g/s (E)
- Firms use the sales to pay income for resources
- Equilibrium: Y = E

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

EQUILIBRIUM