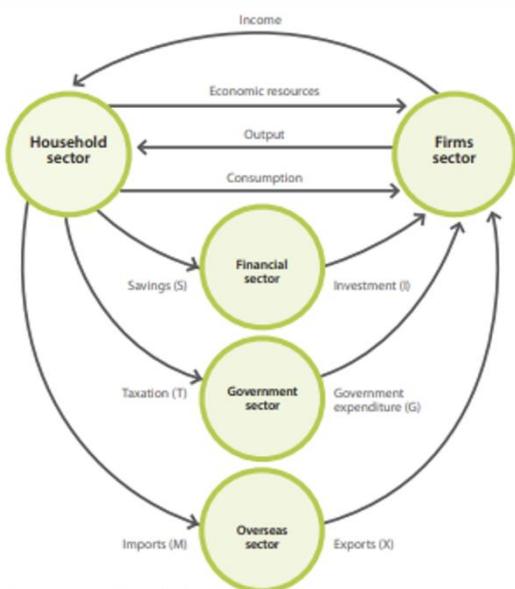


**UNSW 2024-2025
ECONOMIC (TERM 2)
FOUNDATION NOTES
TO GET AN HD**

- **Circular flow model:** simple model of all key sectors in an economy, showing real flow and money flow for all sectors.



Household sector: buy goods and services, provides resources.

Firm sector: Employs resources, produces output, pays income

Equilibrium: Income (Y) = Expenditure (E)

- **Financial sector:** acts as financial intermediaries between people or firms with surplus funds and those who wish to borrow.

Equilibrium: Savings = Investment

If $S > I \rightarrow$ Household savings > Borrowings, Revenue decrease, Output decrease, resource employment decrease, household income decrease

- **Government sector:** all local state, national government, receives tax revenue, spends on public goods

Equilibrium: $S + T = I + G$

- **Government budget:** Deficit budget ($G > T$), surplus budget ($T > G$), Balanced budget ($G = T$)
 - **Fiscal policy to adjust government budget**
 - When $T > G$, government can increase expenditure or decrease taxes
 - When $G > T$, government can decrease expenditure or increase taxes.
 - **Monetary policy**
 - When economy is contracting, lower interest rates to increase injections (increase investments and gov expenditure)
 - When economy is expanding, raise interest rates to increase leakages (increase savings and tax)
 - Decrease in interest rates \rightarrow inflation
 - Increase in interest rates \rightarrow unemployment

- **Overseas sector:** International sector for trade or financial flows because domestic resources cannot satisfy all needs.

Equilibrium: $S + T + M = I + G + X$ (M = imports, X = exports)

- **Leakages:** Money taken out of the economy, left side of circular flow model ($S + T + M$)

- **Injections:** Money put into the economy, right side of the circular flow model ($I + G + X$)

- If **leakages > injections**: decrease in expenditure, output, employment, income (Contracting economy)