



3055 BA SANGAM COLLEGE

PH: 6674003/9264117 E-mail: basangam@connect.com.fj



WORKSHEET 10

LESSON NOTES

School: Ba Sangam College

Year: 11

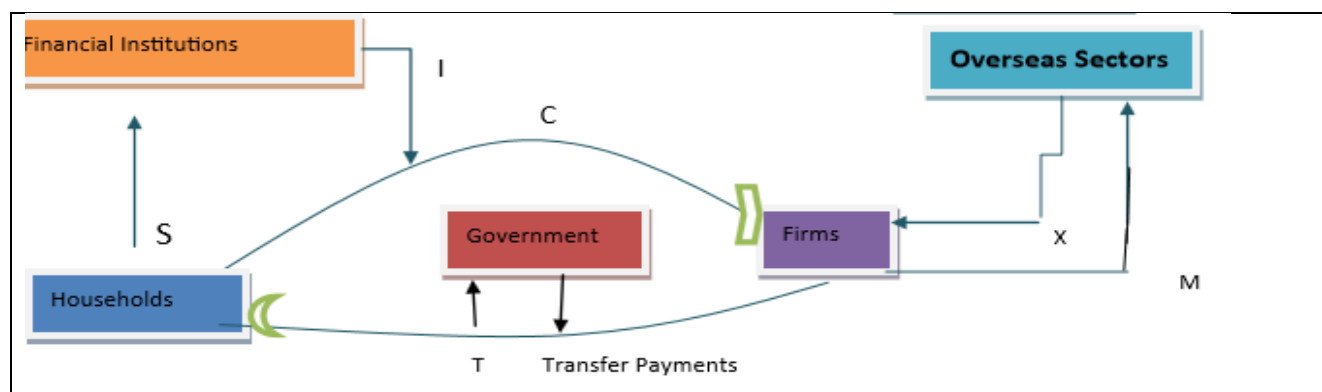
Name: _____

Subject: Economics

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|--|---|
| Strand 3 | Macroeconomics |
| Sub Strand 3.1 | National Income |
| Content Learning Outcome EC11.3.1.1 | Examine the component of National Income -Show the components of National Income using the two to five sector flow model |

CIRCULAR FLOW

An Open Economy (5 Sector Model)



- The five sector model illustrates an **open economy**, consisting of households, firms, financial institutions, government and overseas sector.
- Open Economy is an economy that engages itself in Trade thus involving export and import.
- Now, we add Exports to Consumption, Investment and Government Spending.
- Exports are demanded by foreigners and their spending can be thought of as an **injection** into the economy's circular flow.
- Note that, our nation's income is used to buy imports (M). To get the accurate measure of what the economy itself produces, the value of imports has to be subtracted. Imports represent a withdrawal from the circular flow model (**leakage**), therefore, giving net exports as (XM).
- Net Export is the difference between export and import
Net Export = Export – Import
$$NX = X - M$$

- The equilibrium condition of a five sector flow model is when

$$S + T + M = I + G + X$$

Activity

1. Name the five sectors found in the five sector flow model.

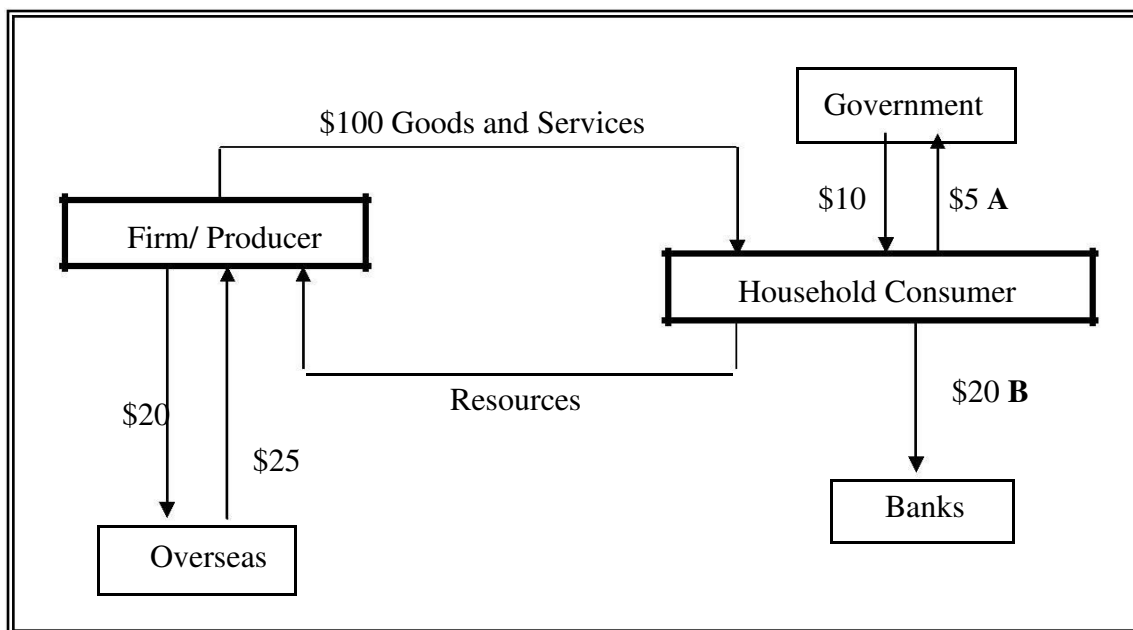
- a) _____ b) _____
 c) _____ d) _____
 e) _____

(5 marks)

2. State the difference between open economy and a closed economy

(2 marks)

3. Study the Circular Flow Model given below and answer the questions that follow.



(i) State the type of economy shown above. _____ (1 mark)

(ii) What **term** is given to the \$5 labelled **A**? _____ (1 mark)

(iii) What is the **purpose** of the \$20 labelled **B** ?
 _____ (1 mark)

(iv) Calculate Net Export

 _____ (2 marks)

(v) State **two** economic concept illustrate by the above model.
 _____ (2 marks)

(vi) State the equilibrium condition for an open economy sector.
 _____ (1 mark)