

PENANG SANGAM HIGH SCHOOL

P.O BOX 44, RAKIRAKI

LESSON NOTES WEEK 10

Subject: Economics

Year: 11

Strand: 3

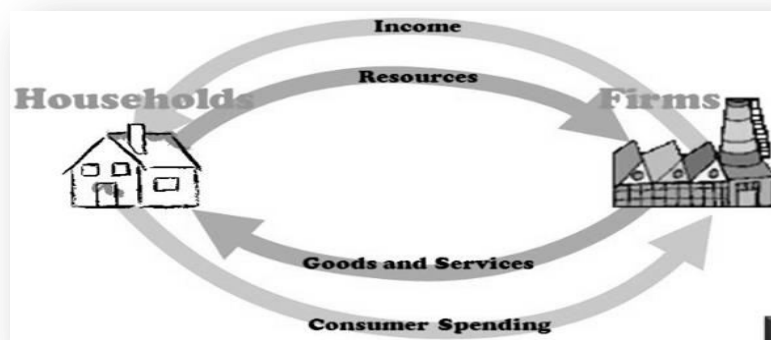
Sub Strand: 3.1- National Income

Content Learning Outcome: - Show the components of National Income using the two to five sector flow models

Lesson Notes (Copy the content learning outcome and notes in your note book)

- **Circular Flow**- shows the functioning of different sectors of an economy.
- Sectors in an economy consist of Household, Firms, Financial institutions, Government and Foreign/ Overseas sector.
- Functions of the Sectors:
 - Household**- owners of Factors of Production and supply resources to firms for production. Act as consumers.
 - Firms**- Produce goods and services.
 - Financial Institution**- channel savings and investment in the economy.
 - Government**- set laws and policies, provide collective goods, collect tax and help producers and individuals.
 - Overseas sector**- helps to maintain export and imports.
- Real /Physical flow- flow of resources from household to firms and the corresponding flow of goods and services from firms to households.
- Money/ Income flow- flow of factor income from firms to households and the flow of consumption expenditure from household to firms.

2 – Sector flow model- Closed Economy



- Households provide the resources/ FOP [land, labour, capital and entrepreneurship] to the firms and in return the firm pays for these resources.
- Firms will use these resources to make good and services and supply to the households and in return the household will pay for these goods and service [Consumer Expenditure/ Consumption Expenditure].
- There is no saving in a 2 sector flow model. So whatever is **earned [Y]** will all be **spent [C]**.
- **Total Income = Total Expenditure**
- **Equilibrium Condition $Y = C$**
- **Y is Income and C is Consumption or Expenditure**
- **Both sectors need each other and thus, they are interdependent.** They depend on each other in order to function; for example, Firms depend on Household to supply them with FOP while Household depends on Firms to supply them with goods and services.

Class Activity

1. What does a circular flow illustrate?
2. Identify a component of Gross Domestic Product [GDP] illustrated in a 2 sector flow model.
3. Define interdependence and state an example from the model above.
4. Sketch a simple circular flow diagram using the appropriate terms and symbols from the resource list given below.

Resource List

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| <ul style="list-style-type: none"> • Consumption Expenditure (\$) • Flow of Goods and Services • Land, Labour, Capital & Enterprise • Factor Payments (\$) |
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