

Subject: Economics

Year: 11

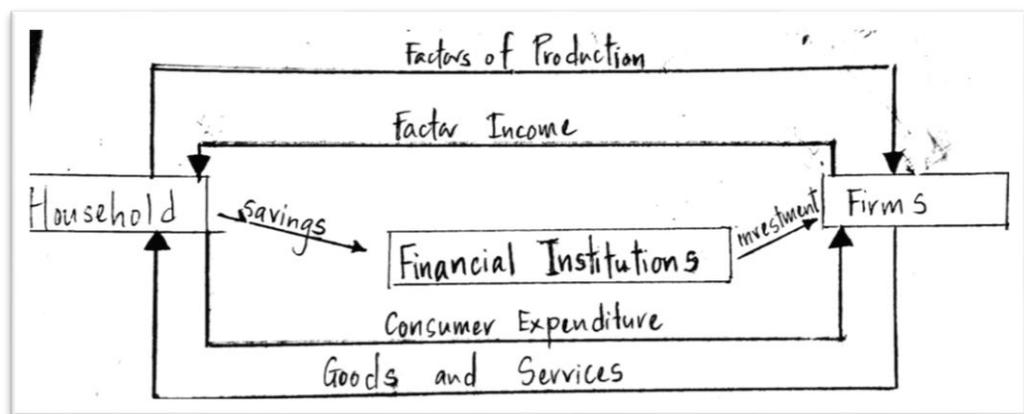
Strand: 3

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 content learning outcome and notes in your note book)

- ✓ The 3 sectors flow model is made up of Households, Firms and Financial Institutions. These three sectors make up the Private sector of the economy.

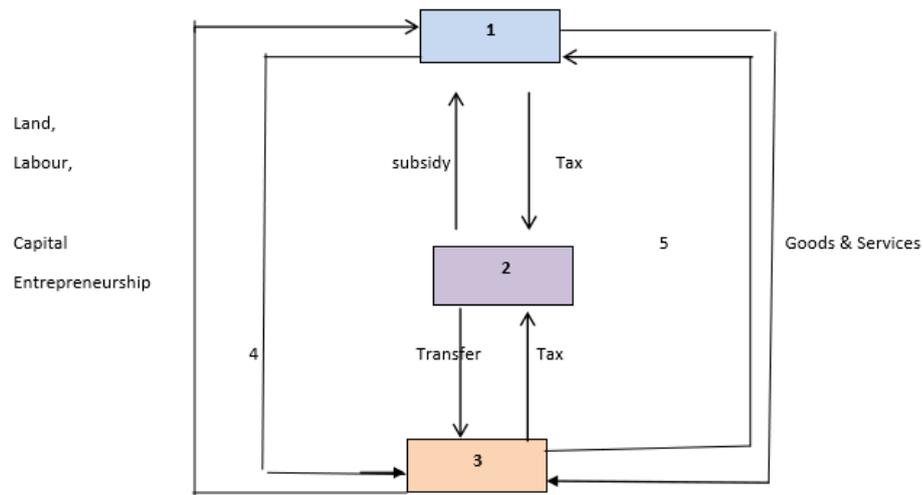


- ✓ **National Output** - The total value of final goods and services (both Consumer Goods and Investment Goods) produced in an economy for a period of time.
- ✓ **National income** - measured as either a value of goods and services produced or as the income earned in production and are expressed in money terms.
- ✓ Savings [S] is a leakage from the circular flow and will lead to a decrease in the size of circular flow leading to a decrease in income, output and employment in the economy.
- ✓ Investment [I] spending occurs when firms add to their stock of capital goods. Investment spending will often involve firms borrowing money from the household savings. Investment is an injection or addition to income stream in the circular flow. It increases the size of circular flow, leading to an increase in income, output and employment in the economy.
- ✓ Formula for National income [Y] calculation: $Y = C + I$
- ✓ **Equilibrium Condition** 3 Sector: $S = I$

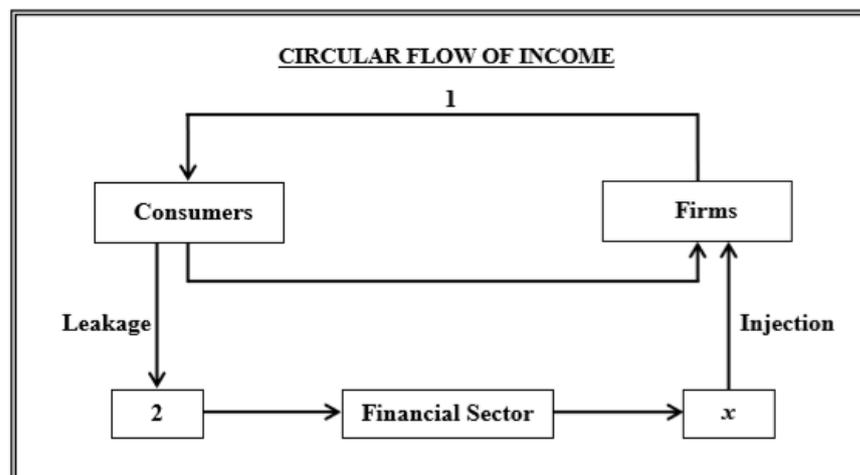
Class Activity

Activity 3.1.3 pg. 74

- Use the circular flow chart given below and your knowledge to answer the questions that follow.



- Identify the boxes 1, 2, and 3.
 - Give an example of Flow 4.
 - Define interdependence and state an example from the model above.
 - Describe Leakage Effect and give an example.
- Use the chart given below with your own knowledge to answer questions (i) and (ii) which follow.



- Label each of the flows represented by 1 and 2.
- Discuss the relationship between the concepts of specialization and interdependence using the above diagram.