WORKSHEET 8

School: Ba Sangam College   **Year: 11**   Name:_____

Subject: Economics

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

Three Sector Flow Model

The sectors are Households, Firms and Financial Institutions. These three sectors make up the Private sector of the economy.
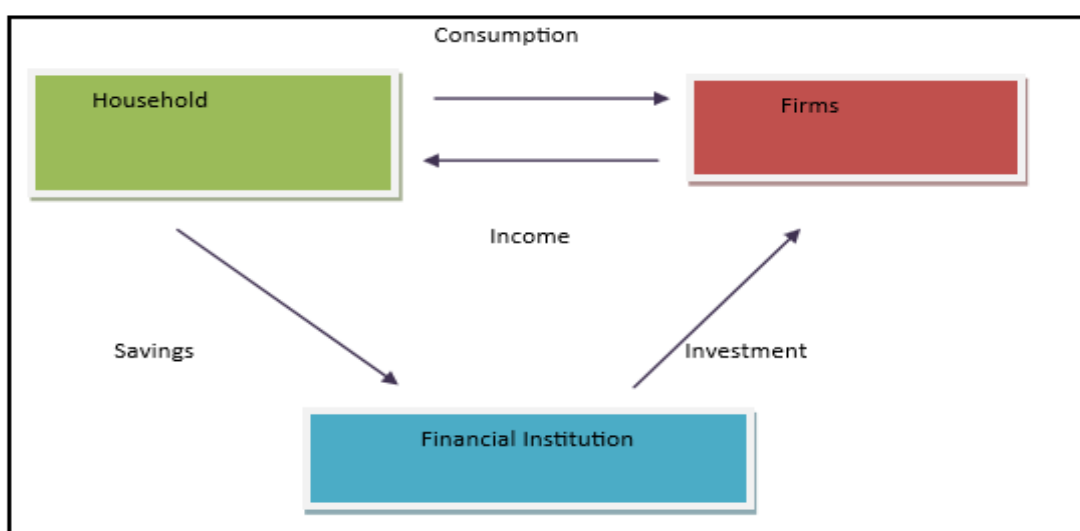
National Output refers to the total value of final goods and services (both Consumer Goods and Investment Goods) produced in an economy for a period of time.

National income is measured as either a value of goods and services produced or as the income earned in production and are expressed in money terms, in relation to the current economic activity in market situation.

Savings is part of income that is unspent. Savings 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 spending** occurs when firms add to their stock of capital goods. Investment spending will often involve firms borrowing money from the household savings. Investment spending re-injects the fund that was previously withdrawn from the circular flow model as savings.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.

Three Sector Flow Model Equation

Y= C+I

Activity

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1.What does a circular flow model shows?

_____

_____(2 marks)

2. State the other name for :

Consumer   _____

Producer   _____

Financial Sector _____   **(3 marks)**

3. Name an injection and a leakage from the three sector flow model

Injection _____   Leakage _____   **(2 marks)**

4. Money flows into the main circular flow that increase output is called _____   **(1 mark)**

5. .Money flows out the main circular flow that decreases output is called _____ **(1 mark)**

6. Use the chart given below with your own knowledge to answer questions (i) and (ii) which follow.

CIRCULAR FLOW OF INCOME
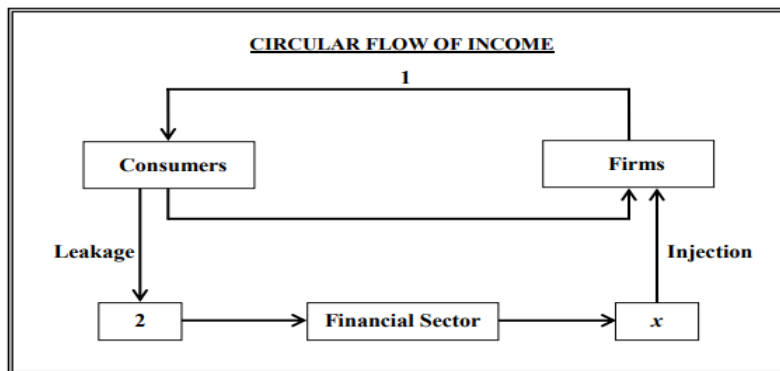
(i) Label each of the flows represented by 1 and 2.

        1.   _____2. _____**(2 marks)**

(ii)   Label x in the graph shown above.

        _____   **(1 mark)**

(iii) Differentciate between leakages and Injections

_____

_____

_____

_____(2marks)

(iv) State the equation for equilibrium condition of a three sector circular flow model.