WORKSHEET 9
LESSON NOTES

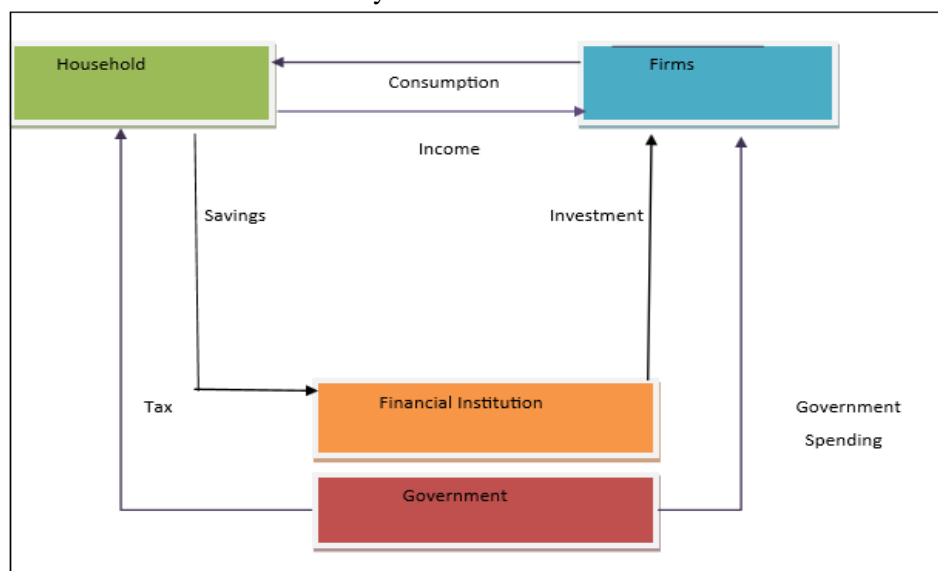School: Ba Sangam College   Year: 11   Name:_____

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

Four Sector Model
The sectors are Households, Firms, Financial Institutions and Government. The four sectors make up the Domestic Sector of the economy.

Government as a body collects **taxes** and spends them on producing <u>collective goods</u> for the benefit of our society. The other government expenditure is on goods and services produced by firms (e.g. Food for hospital patients or on wages and salaries of government employees).

Note: The total **government spending** (G) is an **injection** into Circular flow, thus it increase the size of circular flow, leading to an increase in output and employment. **Taxation** is a **leakage** from circular flow. It decreases the size of the circular flow leading to decrease in income, output and employment.

Therefore, the equilibrium condition of a four sector flow model is when:

S + T = I + G

Activity

1. What is the function of the circular flow model

_____

_____(1 mark)

2. State the four sectors found in the four sector flow model.
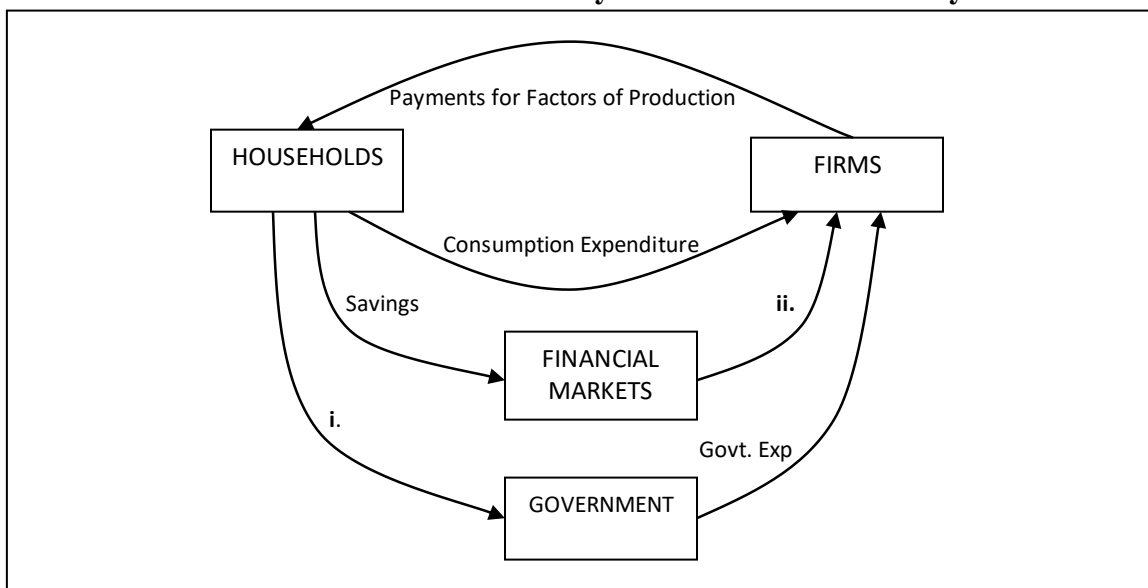
a) _____   b) _____

c) _____   d) _____   **(4 marks)**

3. Name the two injections and two leakage from the four sector flow model

Injection _____   Leakage _____

          _____   _____   **(4 marks)**

4. Use the diagram given below with your own knowledge to answer the questions that follow.

Circular Money Flow Model for Economy X

a.   State the equilibrium condition for Economy X

_____   **(1 mark)**

b.   Label each of the flows represented by **i.** and **ii.**
     i._____   ii._____   **(2 marks)**

c.   Explain why Taxation is said to be a leakage from the circular flow model

_____

_____

_____(1 mark)

d.   State **two** example of a Government Expenditure
     1.   _____
     2.   _____   **(2 marks)**

THE END