

LESSON NOTES

Subject: Economics

Year: 11

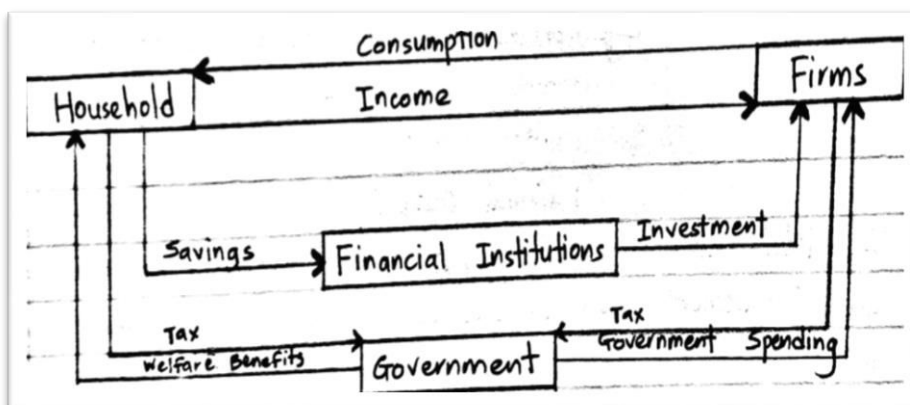
Strand: 3

Sub Strand: 3.1- National Income

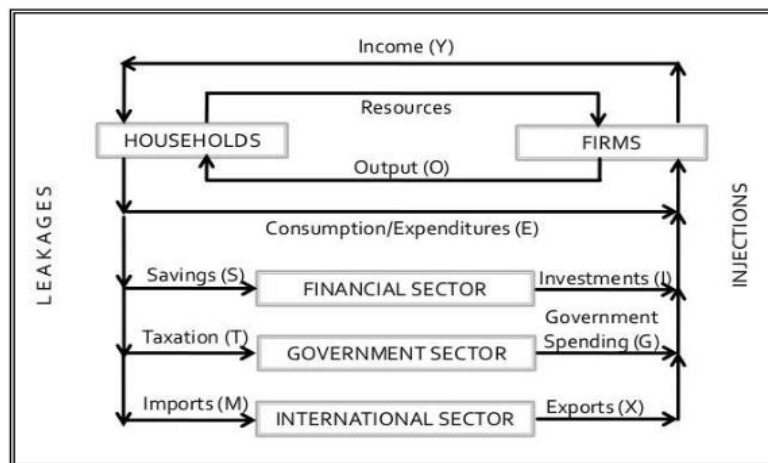
Content Learning Outcome: - Show the components of National Income using the two to five sector flow models

Lesson Notes (copy notes in your note book)

- ✓ The 4 sector flow model is made up of Households, Firms, Financial Institutions and Government. The four sectors make up the Domestic Sector of the economy.



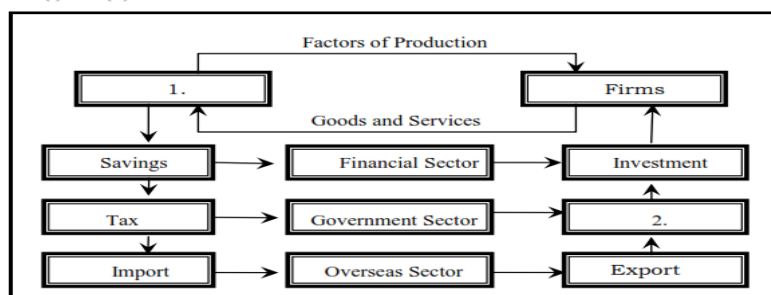
- ✓ The output is made out of two different types of goods- consumption and investment in three sector model. Now we add government goods (G) to consumption and investment.
- ✓ The total government spending [G] is an injection into Circular flow, thus it increase the size of circular flow, leading to an increase in output and employment.
- ✓ Taxation [T] is a leakage from circular flow. It decreases the size of the circular flow leading to decrease in income, output and employment.
- ✓ Formula for National income [Y] calculation: $Y = C + I + G$
- ✓ **Equilibrium Condition** $S + T = I + G$
- ✓ The five sector model illustrates an open economy, consisting of households, firms, financial institutions, government and overseas sector.



- ✓ Savings, Taxation and Imports are leakages 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, Government spending and Exports are an injections 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: $Y = C + I + G + [X - M]$
- ✓ **Equilibrium Condition** $S + T + M = I + G + X$

Class Activity

1. Use the diagram given below to answer the questions that follow.



- i. Fill in boxes 1 and 2.
- ii. State the equilibrium condition for a four sector model.
- iii. Identify any four components of National income in an open economy.
- iv. State the equation for equilibrium condition of a five sector circular flow model.
- v. Define the term injections.
- vi. Identify two injections from the circular flow