



WORKSHEET 19
LESSON NOTES

School: Ba Sangam College
Subject: Commercial Studies

Year: 9

Name: _____

Strand 3	Economics 1
Sub Strand 3.3	Macroeconomics
Content Learning Outcome C.9.3.3.1	Explore and analyse the two basic economic sectors of the economy.

Circular Flow Model

Household Sector

This sector consists of all private individuals within the economy

Functions of Household Sector

They are **owners of productive resources** [*land, labour, capital and entrepreneurship*]

Receive their income [*rent, wages /salaries, interest, profit*] in exchange for the supply resources.

They act as consumers as well and incur consumption expenditure.

Business Firms

This sector comprises all those business enterprises within the economy that are engaged in the production and distribution of goods and services.

Functions of Business Firm

They purchase factors of production from the household sectors and turn it into goods and services.

Supply goods and services and earn revenue

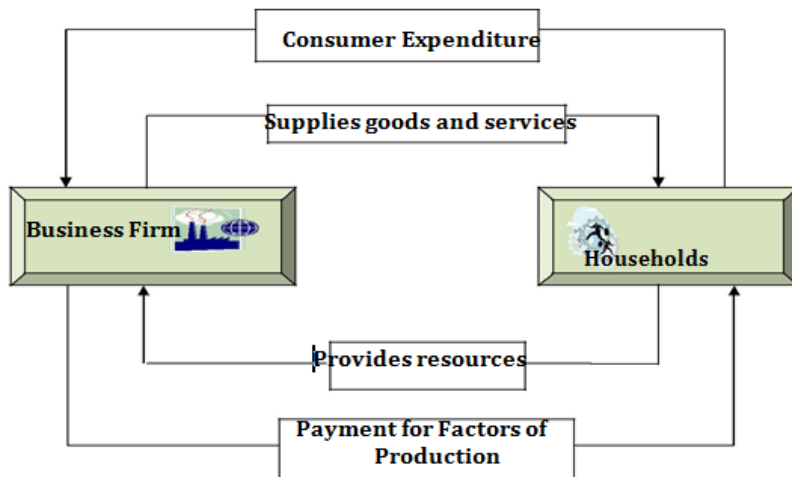
Interdependence between Household and Business Sector

To depend means relying on someone and **interdependence** means relying on each other for production and satisfaction. Thus, Business Firm relies on household for factors of production and consumer expenditure while households depend on firms for supply of goods and services and payment for their resources.

Circular Flow Model

Shows the relationship between a household and business sector. A circular flow modal focuses on the exchange of resources in return for household income that are spent on consumption.

Two Sector Circular Flow Model



Concepts Illustrated by the Two Sector Model

- Specialization
- Interdependence
- Use of money

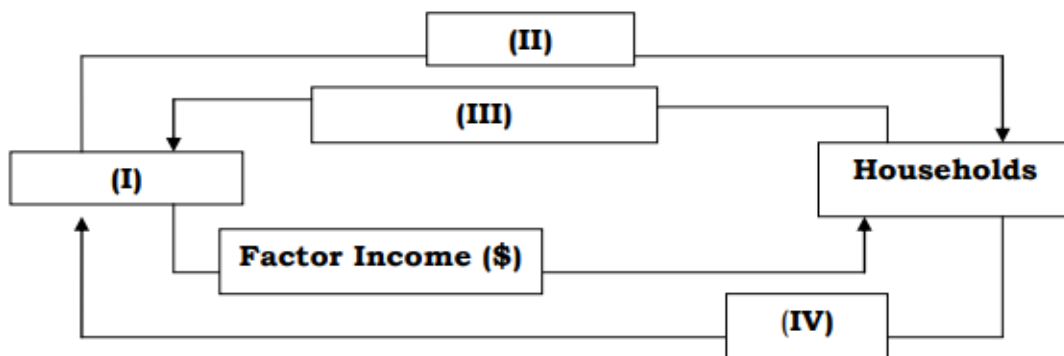
Activity

1. The simple two circular flow model shows relationship between

- A. earnings and spending
- B. saving and investment
- C. imports and exports
- D. taxation and government spending

(1 mark)

2. Complete the circular flow model given below by filling in I to IV



(4 marks)

- I _____
- II _____
- III _____

IV

Government

There are two types of Government in Fiji:

- o *Central government;*
- o *Local government*

Local Government

Objectives of Local government:

Town and country planning and administration e.g. Nausori Town Council, Suva City Council

Functions of Local government:

- Beautification of town and cities
- Facility upgrading
- Provision of sporting facilities
- Waste disposal
- Provision for parking
- Recreation
- Provides street lights, market place, etc

Central Government: *is the most powerful and governs the whole nation and looks after the welfare of its people as well.*

Objectives of Central government:

- Achieve economic growth,
- Full employment,
- Economic welfare,
- Economic stability

Functions of Central government:

Regulatory Role: Maintaining Legal and Social Framework

State ensures that there are adequate laws to protect all economic agents, and to ensure that the laws are followed.

Developmental Role

The government is to ensure that resources allocation in the nations develops and achieves the objectives which the society sets.

Allocative Role: Providing Public Goods and Services

This role allows the government to ensure that public goods are provided that the private sector does not produce. Example: Provide goods and services that markets are unable or unwilling to provide, such as national defense, infrastructure etc.

Distributive Role

Is the attempt by the government to change and control income distribution so that the resulting distribution meets with the society's standards and equality is maintained. Example: Higher income tax rates for rich than for poor, provide social security, and aid to dependent children.

Correcting for Externalities

Example: Taxes to reduce negative externalities, such as environmental pollution; subsidies to encourage positive externalities, such as education. Externalities exist when some of the costs or benefits associated with the production or consumption of a product "spill over" to third parties other than the direct producer or consumer of the product.

Stabilization Role

Concerns intervention in the economy through monetary, fiscal policy, exchange rate and trade policy to ensure that the economy remains stable at the macroeconomic level. Example: Use government budgets and/or the money supply to promote economic growth, control inflation, and reduce unemployment

Activity

When you are in local government, you are on the ground, and you are looking into the eyes and hearts of the people you are there to serve. - Valaerie Jarret.

Discuss the above statement with reference to:

- the main objective of the local government.
- two functions of the local government.
- the difference between the local government and the central government.

(5 marks)

THE END