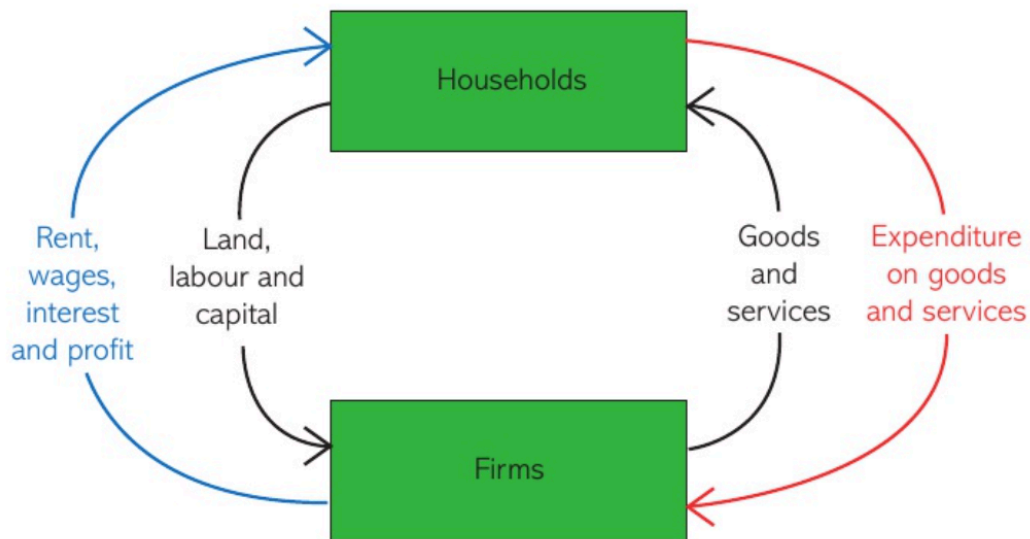


## CHAPTER 32 : Circular flow of income

### Key terms

1. Circular flow of income : a model of the economy that shows the flow of goods, services and factors and their payments around the economy
2. Closed economy : an economy in which there is no foreign trade
3. Income : Rent, interest, wages and profits earned from wealth owned by economic actors
4. Injections : in the circular flow of income, spending that is not generated by households including investment, government spending and exports
5. National income : the value of output, expenditure or income of an economy over a period of time
6. Open economy : an economy in which there is trade with other countries
7. Wealth : a stock of assets that can be used to generate a flow of production or income.
8. Withdrawals or leakages : in the circular flow of income, spending by households that does not flow back to domestic firms. It includes saving, taxes and imports

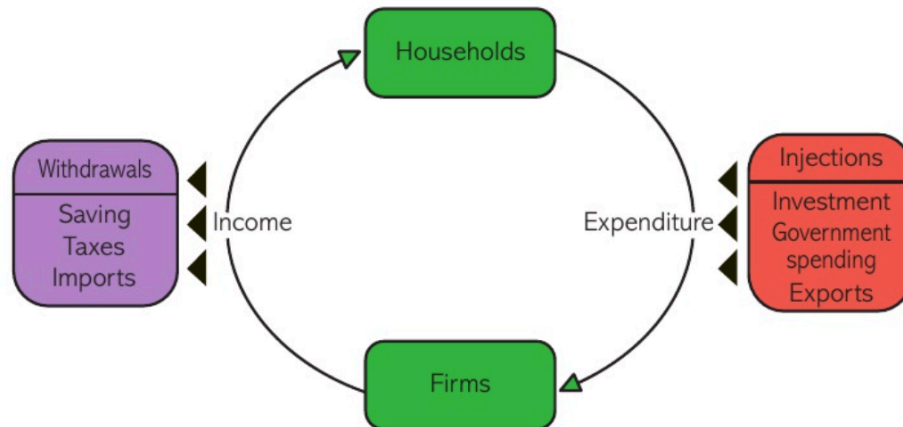
## 1. The circular flow of income



**The circular flow of income model** : can be used to show that there are 3 ways of measuring the level of economic activity.

- National Output : this is the value of the flows of goods and services from firms to Households
- National Expenditure (E) : this value of spending by households on goods and services.
- National income (Y) : this is the value of income paid by firms to households in return for Land, labour, capital

## 2. Injections and withdrawals



- **Injections** : in the circular flow of income, spending that is not generated by households including investment, government spending and exports
- **Withdrawals or leakages** : in the circular flow of income, spending by households that does not flow back to domestic firms. It includes saving, taxes and imports

### Injections

- **Investment** is spending by firms on new capital equipment
- **Government Spending** : is spending by central and local government as well as other government agencies
- **Export** : is spending by foreigners on goods and services made in the economy.

### Withdrawals

- **Saving** : is money that not spent by households.
- **Taxes** : paid to government take money from both households and firms
- **Imports from abroad** : are bought by households and firms