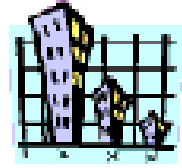


The Circular Flow of Income

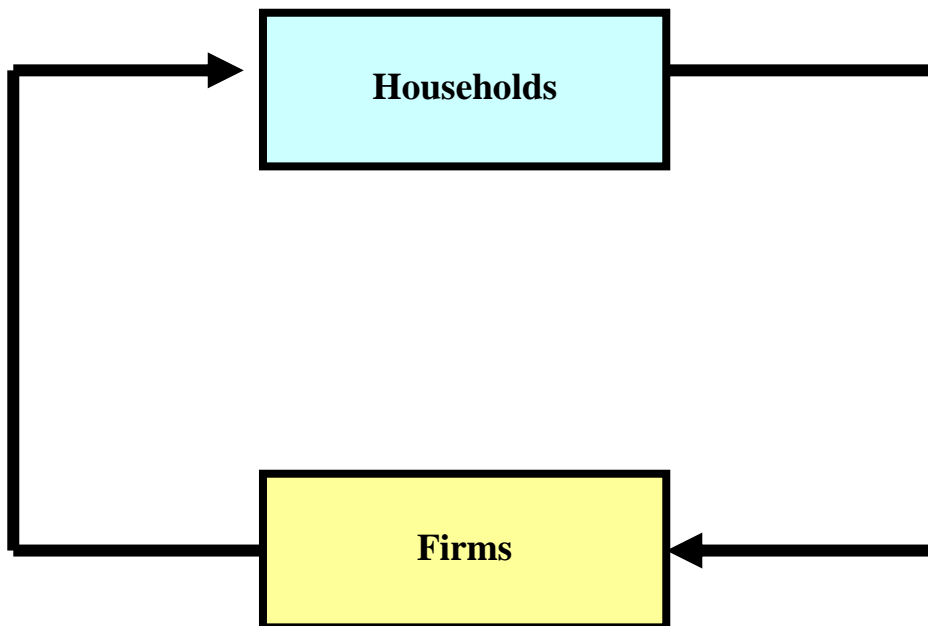
We begin our study of macroeconomics by looking at a simple version of a nation's economy.

- Imagine a simple economy where there is no government and no trade with foreign countries. There are simply **two sectors in the economy**: firms and households.



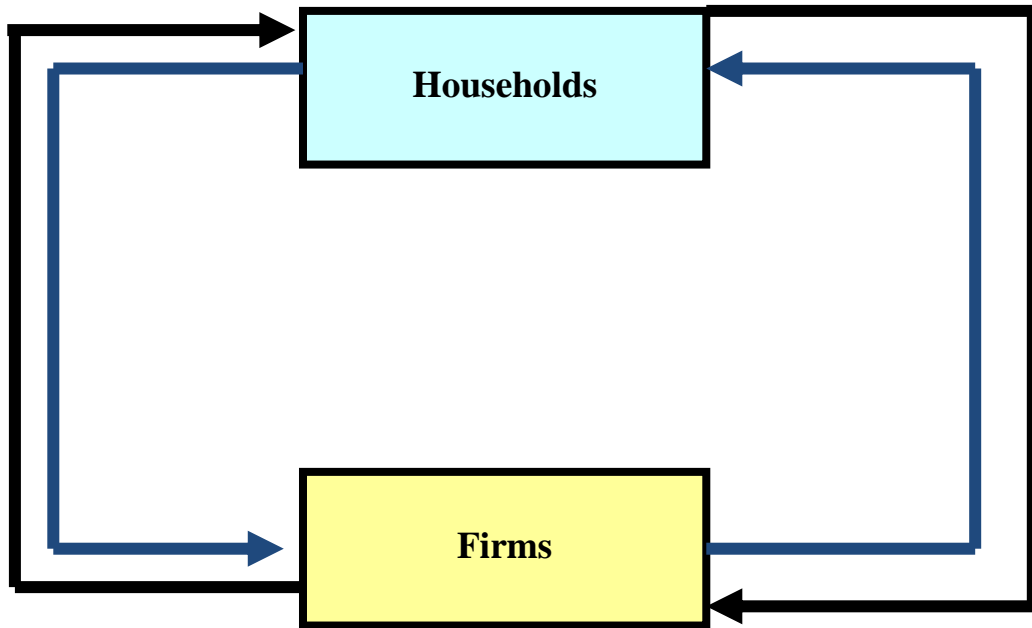
- 1) What do **firms** supply households?

- 2) What do **households** supply firms?



- 3) What do Firms receive in exchange for their _____?

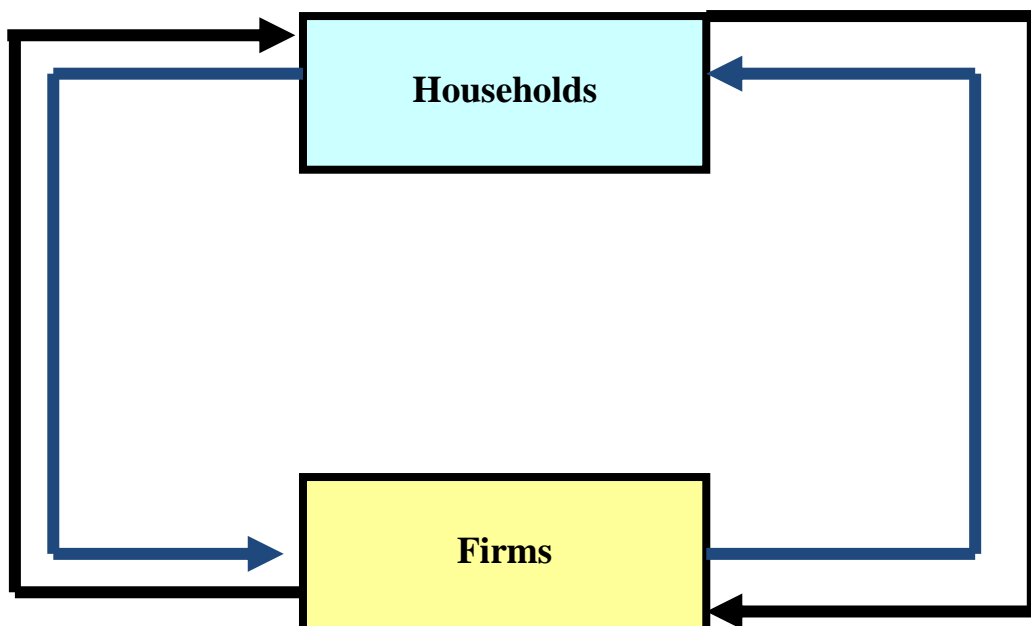
- 4) What do households receive in return for their _____?



5) On your diagram you should now identify the **injections and leakages** to the circular flow of income.

+ What is an **injection**?

+ What is a **leakage**?



6) On your diagram identify the arrow which represents the following:-

+ *National Output*

+ *National Income*

+ *National Expenditure*

7) In the table below define the **three** terms that are given above.

Measurement	Definition
+ <i>National Output</i>	
+ <i>National Income</i>	
+ <i>National Expenditure</i>	

8) What is the important thing to remember about these three measurements?
