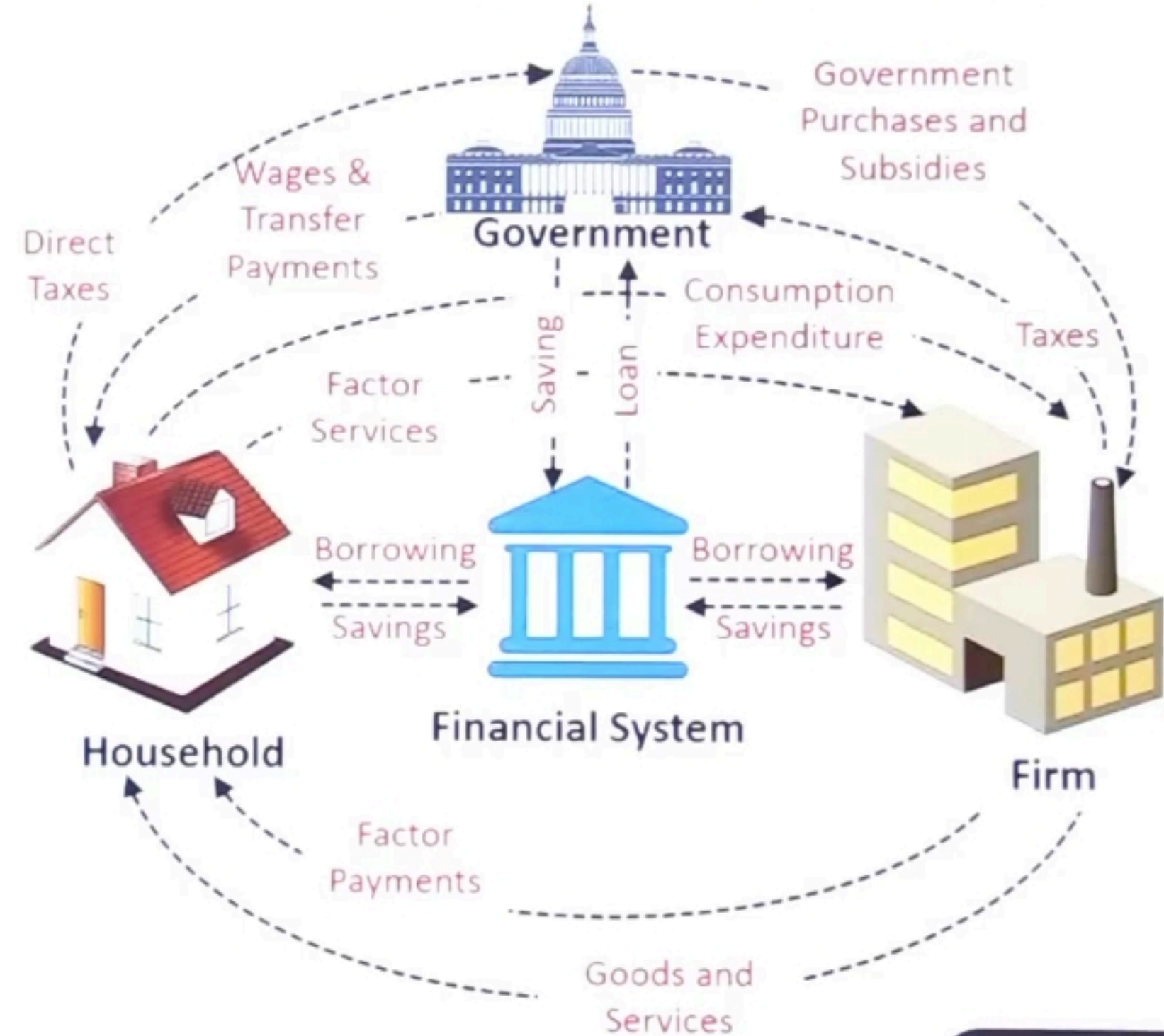


# Circular flow of Income in Three Sector Economy

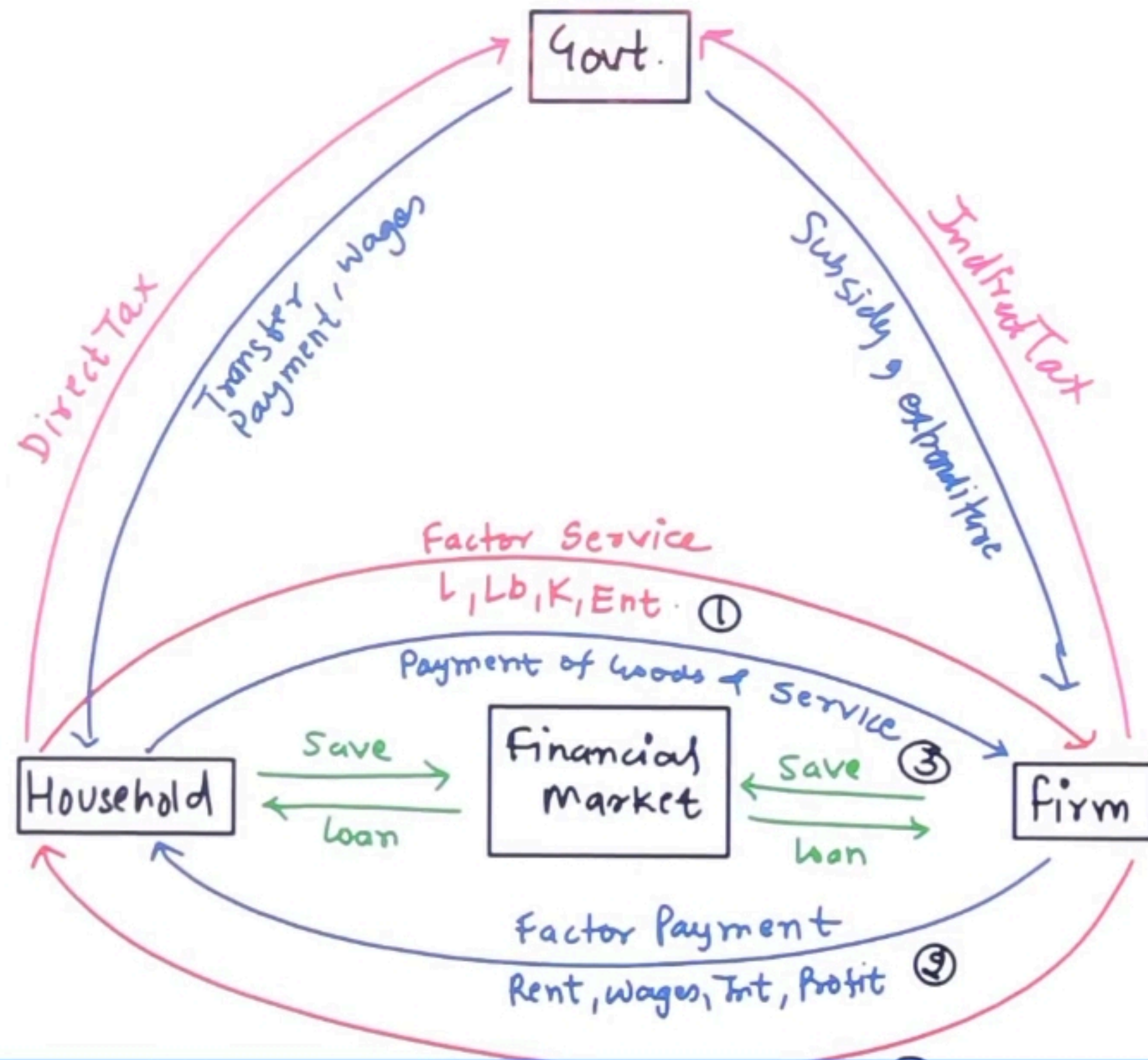
7/97

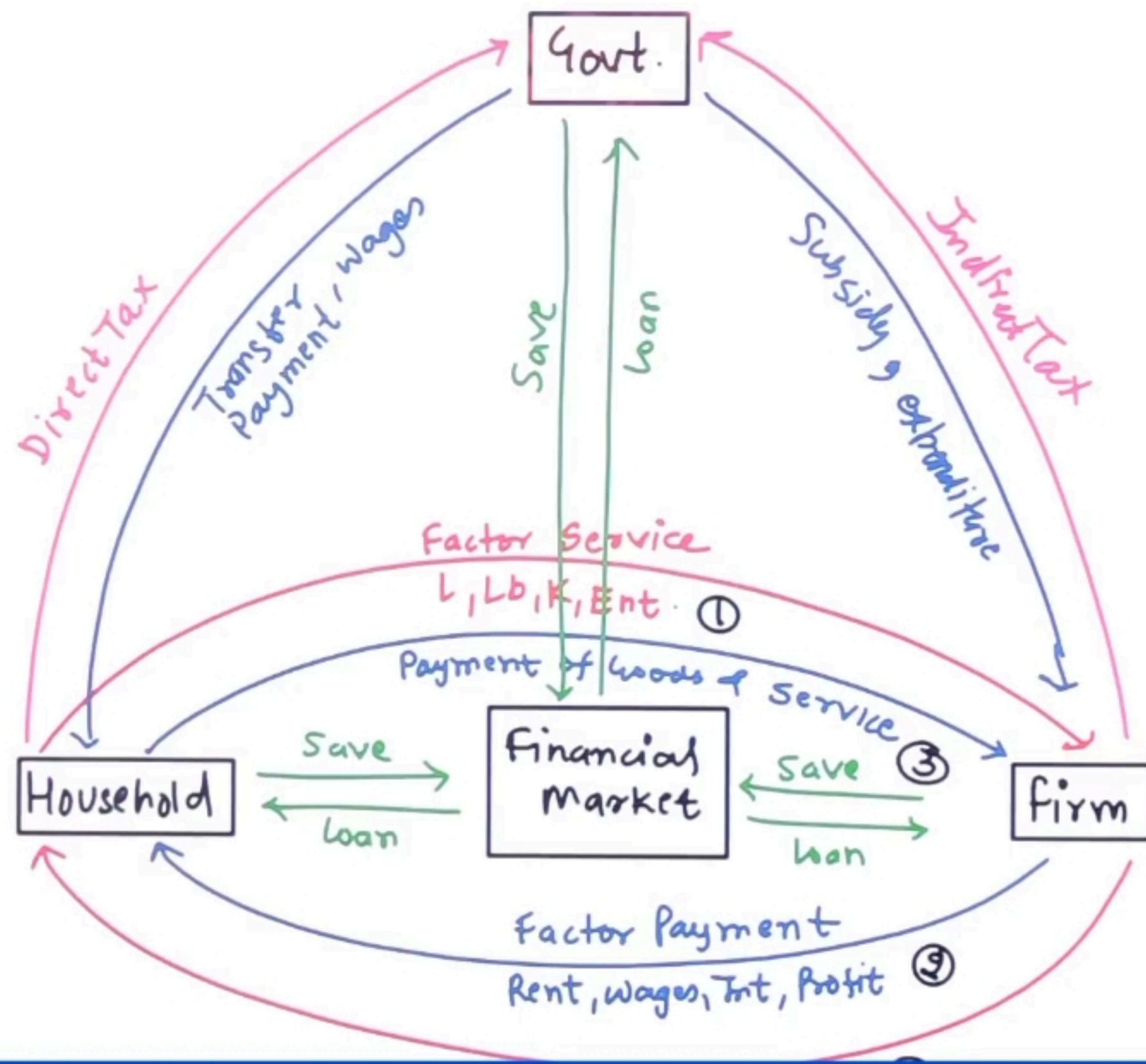
This model is more close to real life situation. In this model economic activities of the government have also been accounted for. However, we continue to assume that the economy is a closed economy. It means the circular flow of income is influenced by the foreign sector at all. *not*



< 97%









### Working of this model

- 1) Money flows from firms and households sector to govt. in the form of taxes. Government receives direct taxes from the households and indirect taxes from the firm sector.
- 2) Govt sector also provides subsidies (like fertilizer subsidies) to the firm and transfer payment (scholarship, old age pension etc.) to household. Also money flow from govt. to firm in the form of govt. expenditure on goods and services.
- 3) A part of income earned by the government is saved and invested into financial (capital market). Govt also borrow money form capital market in the form of loan to meet current expenditure (daily expenses) or development expenditure.
- 4) Household sectors are the owner of all factors of production. Household sector provide factor services (L,Lb,K,Ent) only to firms and household received factor payment (Rent, wages, Interest, profit) from firms.



- 1) Money flows from firms and households sector to govt. in the form of tax. Government receives direct taxes from the households and indirect taxes from the firm sector.
- 2) Govt sector also provides subsidies (like fertilizer subsidies) to the firm and transfer payment (scholarship, old age pension etc.) to household. Also money flow from govt. to firm in the form of govt. expenditure on goods and services.
- 3) A part of income earned by the government is saved and invested into financial (capital market). Govt also borrow money from capital market in the form of loan to meet current expenditure (daily expenses) or development expenditure.
- 4) Household sectors are the owner of all factors of production. Household sector provide factor services (L, Lb, K, Ent) only to firms and household received factor payment (Rent, wages, Interest, profit) from firms.



flow from govt. to firm in the form of govt. expenditure on goods and services.

- 3) A part of income earned by the government is saved and invested into financial (capital market). Govt also borrow money form capital market in the form of loan to meet current expenditure (daily expenses) or development expenditure.
- 4) Household sectors are the owner of all factors of production. Household sector provide factor services (L,Lb,K,Ent) only to firms and household received factor payment (Rent, wages, Interest, profit) from firms.

- 5) Household sector also spent amount on consumption of goods and service. Households do not spent entire income on consumption, they saved a part of their income into capital market. On the other hand, firms borrow this amount from capital market for their expansion and growth. In this way flow of income continues between three sectors of economy.