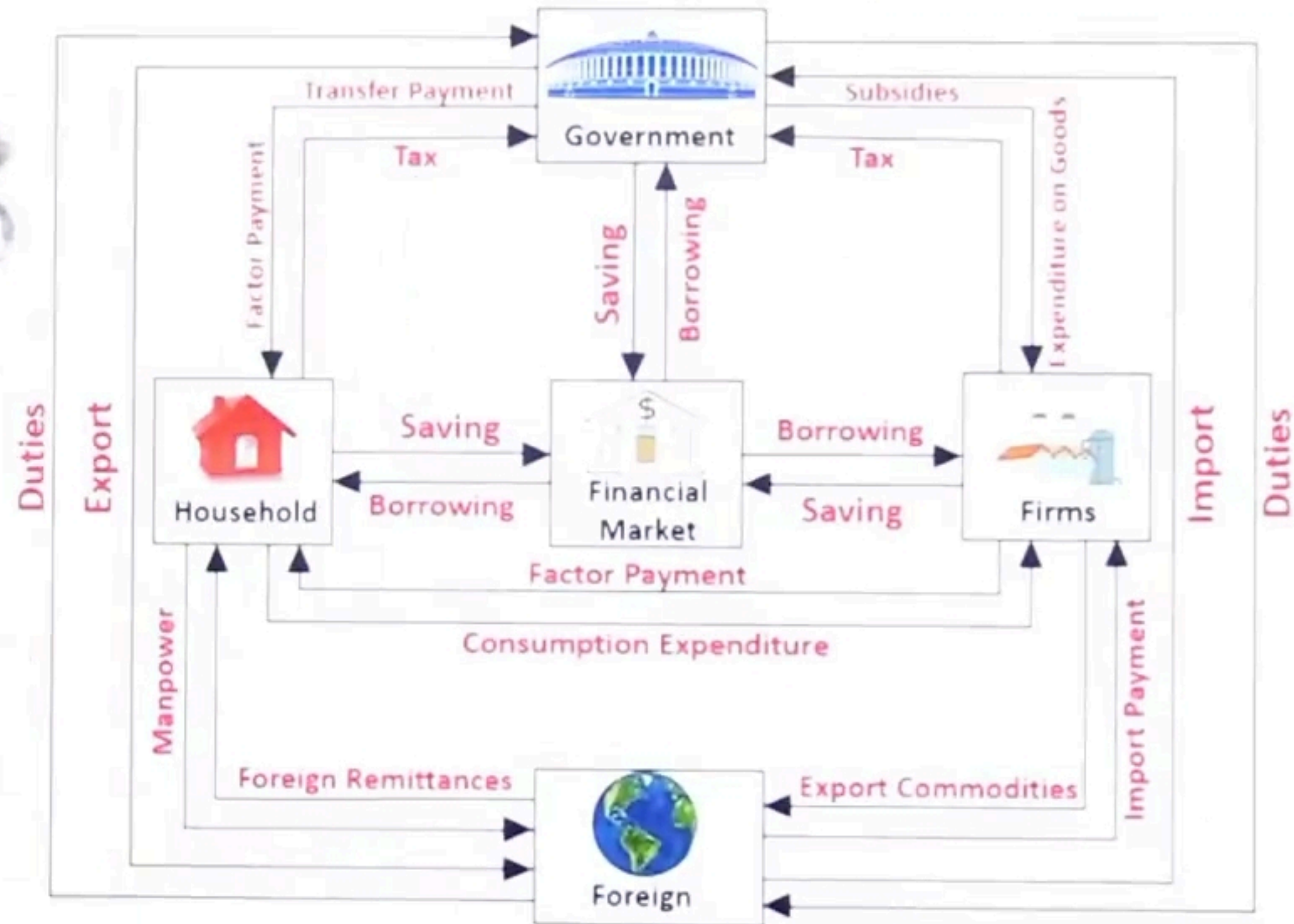
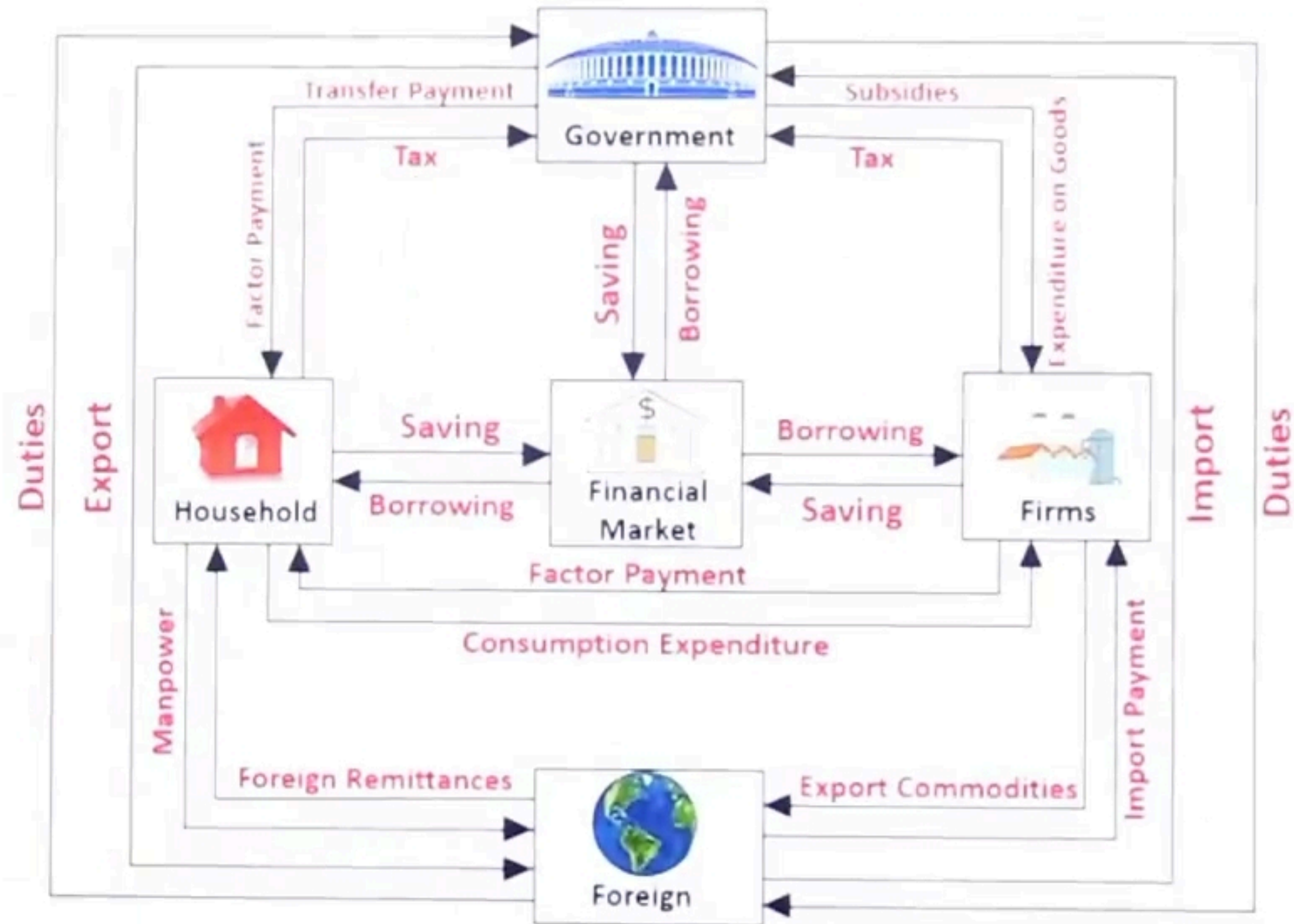


Circular flow of Income in Four Sector Economy



Four-Sector Model

Circular flow of Income in Four Sector Economy



Four-Sector Model

」 Circular flow of income in four sector economy (Open Economy) consists of households, firms, governments and Rest of the World.

- 1) ✓ The ROW sector receives income from the producing sector in return for the goods and services imported by the firm. Thus, the money flows from producing sector to the ROW sector. The ROW sector makes payment to the producing sector for the purchase of goods and services exported by the firms. Thus, there is a flow of income from ROW sector to the producing sector.
- 2) ✓ Household also provides services to the ROW sector and get payment in return. Also ROW sector provides remittances or any transfer payment to the household sector.
- 3) 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.

- 4) 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.
- 5) 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.
- 6) 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.
- 7) 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.