



eLearneconomics: Circular Flow Model (1)

Student response

Complete the statements below using the words listed.

assumption	firms	inter-relationships	relationships
capital formation	four-sector	investment	redistributes
collects	future	import payments	savings
consumers	goods	injections	services
depreciate	government	leakages	simplifications
decrease	households	models	spends
export receipts	households	overseas	two-sector
fall	income	pay	works
firm	interdependent	resources	

- (a) Economics often makes use of _____ (an idea using a diagram). Models are _____ of reality that are used to explain economic _____ and predict the effects of change.
- (b) The circular flow model is an economic model that provides a picture of how an economy _____ and the _____ between various sectors. All producers are grouped together as _____ and all consumers are grouped together as _____.
- (c) A household is a group of _____ living under one roof, e.g., a blended family, a flatting situation or mum, dad and the children. An underlying _____ of the model is that the household owns all resources.
- (d) A _____ is an organisation that employs the _____ to make _____ and provide _____ that consumers demand.
- (e) Firms and households are _____, firms can not produce goods and services unless _____ provide resources. Households earn an _____ and use this to _____ for goods and services from firms.
- (f) The _____ circular flow model (households and firms) represents a very basic economy. The addition of the _____ sector and _____ sector is more representative of a modern economy.
- (g) Government _____ taxes and either _____ income (transfer payments) or _____ on goods and services (roads, education, health).
- (h) The overseas sector shows how _____ (income from exports) and _____ (the cost of imports) are incorporated into the _____ circular flow model.
- (i) For _____ to take place _____ are required, e.g., if saving levels are low, funds available for investment are likely to fall. This can cause difficulties in the _____, because as capital goods wear out (_____) the level of output will fall, and cause a _____ in incomes.
- (j) Any flows into the circular flow diagram will increase output and are called _____. Any flows leading out of the circular flow will _____ output and are called _____.
- (k) Investment (or _____) spending occurs when firms add to their stock of capital goods.

eLearneconomics: Circular Flow Model (1a)



Solution

Complete the statements below using the words listed.

assumption	firms	inter-relationships	relationships
capital formation	four-sector	investment	redistributes
collects	future	import payments	savings
consumers	goods	injections	services
depreciate	government	leakages	simplifications
decrease	households	models	spends
export receipts	households	overseas	two-sector
fall	income	pay	works
firm	interdependent	resources	

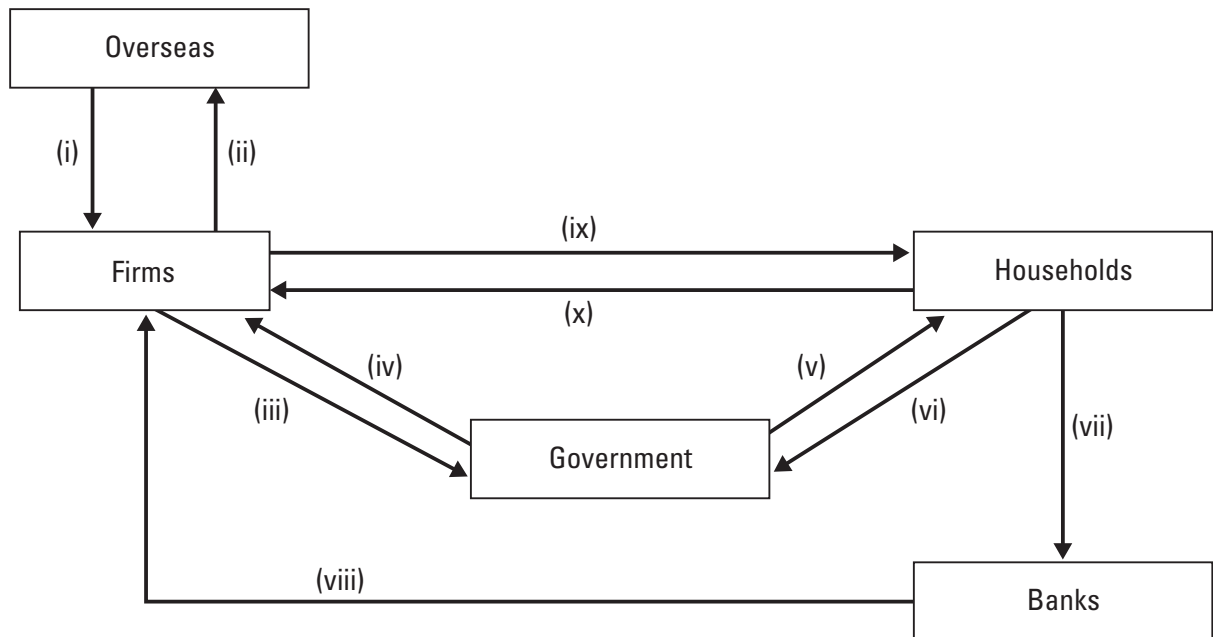
- (a) Economics often makes use of models (an idea using a diagram). Models are simplifications of reality that are used to explain economic relationships and predict the effects of change.
- (b) The circular flow model is an economic model that provides a picture of how an economy works and the inter-relationships between various sectors. All producers are grouped together as firms and all consumers are grouped together as households.
- (c) A household is a group of consumers living under one roof, e.g., a blended family, a flatting situation or mum, dad and the children. An underlying assumption of the model is that the household owns all resources.
- (d) A firm is an organisation that employs the resources to make goods and provide services that consumers demand.
- (e) Firms and households are interdependent, firms can not produce goods and services unless households provide resources. Households earn an income and use this to pay for goods and services from firms.
- (f) The two-sector circular flow model (households and firms) represents a very basic economy. The addition of the government sector and overseas sector is more representative of a modern economy.
- (g) Government collects taxes and either redistributes income (transfer payments) or spends on goods and services (roads, education, health).
- (h) The overseas sector shows how export receipts (income from exports) and import payments (the cost of imports) are incorporated into the four-sector circular flow model.
- (i) For investment to take place savings are required, e.g., if saving levels are low, funds available for investment are likely to fall. This can cause difficulties in the future, because as capital goods wear out (depreciate) the level of output will fall, and cause a fall in incomes.
- (j) Any flows into the circular flow diagram will increase output and are called injections. Any flows leading out of the circular flow will decrease output and are called leakages.
- (k) Investment (or capital formation) spending occurs when firms add to their stock of capital goods.



eLearneconomics: Circular Flow Model (2)

Student response _____

Use the diagram below to answer the questions that follow.



(a) Which number in the diagram shows the money flow of:

Consumption spending	_____	Direct tax	_____
Savings	_____	Indirect tax	_____
Investment spending	_____	Export receipts	_____
Government spending	_____	Import payments	_____
Incomes	_____	Transfer payments	_____
Income not spent	_____	Spending on capital goods	_____

(b) State the physical flows in the circular flow model.

(c) Identify the withdrawals from the circular flow model.

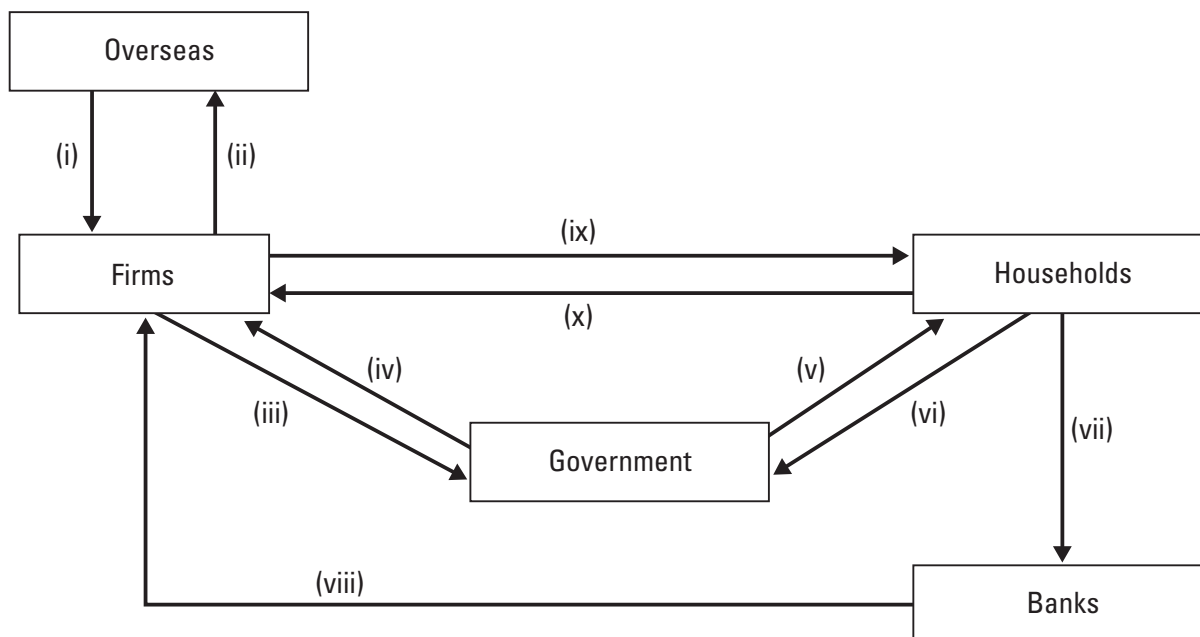
(d) Describe the difference between incomes and resources.

eLearneconomics: Circular Flow Model (2a)



Solution

Use the diagram below to answer the questions that follow.



(a) Which number in the diagram shows the money flow of:

Consumption spending	<u> x </u>	Direct tax	<u> vi </u>
Savings	<u> vii </u>	Indirect tax	<u> iii </u>
Investment spending	<u> viii </u>	Export receipts	<u> i </u>
Government spending	<u> iv </u>	Import payments	<u> ii </u>
Incomes	<u> ix </u>	Transfer payments	<u> v </u>
Income not spent	<u> vii </u>	Spending on capital goods	<u> viii </u>

(b) State the physical flows in the circular flow model.

Goods and services/resources

(c) Identify the withdrawals from the circular flow model.

taxes/savings/imports

(d) Describe the difference between incomes and resources.

Incomes are the payments for resources while resources are the factors of production used to produce goods and services.