

4.2 Introduction to the circular flow of income

Name: _____ Class: _____ Date: _____

Total: 21 marks

Objective

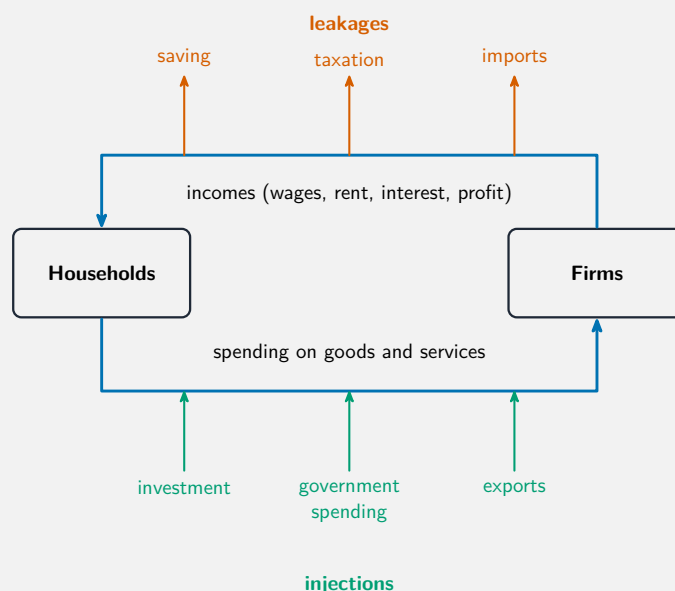
Build the skills to answer exam questions on the **circular flow of income** 收入循环流 — **households and firms** 家庭与企业, **leakages and injections** 漏出与注入, and the equilibrium condition.

You must be able to:

- describe the circular flow between households and firms
- identify the three leakages and three injections
- explain when the flow grows, shrinks or is in equilibrium

1 Worked examples

■ Money around the economy



Households supply factors and spend; firms pay income and produce

- **Leakages** 漏出 take money out: **saving** 储蓄 (S), **taxation** 税收 (T), **imports** 进口 (M).

- **Injectors** 注入 put money in: **investment** 投资 (I), **government spending** 政府支出 (G), **exports** 出口 (X).
- **Equilibrium** when injections = leakages; if injections > leakages the economy grows.

Answer shapes: AO1 + AO2 + AO3 (analysis) + AO4 (judgement, for evaluate questions).

2 Practice

2.1 Define the term *leakage* (withdrawal) from the circular flow. [2]

2.2 State the three injections into the circular flow. [3]

2.3 State the condition for the circular flow to be in equilibrium. [1]

3 Exam-style questions

3.1 Which is a **leakage** from the circular flow of income? [1]

- **A** investment
- **B** government spending
- **C** saving
- **D** exports

3.2 Explain what happens to national income when injections are greater than leakages. [6]

3.3 Explain how a rise in exports affects the circular flow of income in an open economy.[6]

4 Go further

You are now ready for the real exam questions on this subtopic. Open the **4.2 Introduction to the circular flow of income** past-paper sheet in the Library, or try these in **Practice mode**:

- 9708/12 N25 —Q1 (circular flow)
- 9708/12 N25 —Q15 (leakages and injections)
- 9708/13 N25 —Q19 (circular flow equilibrium)

Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 money that is taken out of the circular flow rather than passed on as spending (saving, taxation or imports) (2 for a clear definition; 1 for a partial idea).

2.2 investment; government spending; exports (1 + 1 + 1).

2.3 when total injections equal total leakages (1).

3.1 C. Saving is a leakage (withdrawal) from the flow.

3.2 [6] AO1 1 + AO3 up to 5 —when injections exceed leakages, more money enters the flow than leaves → firms receive more spending → they produce more and pay more income → national income rises until leakages rise to match injections.

3.3 [6] AO1 1 + AO2/AO3 up to 5 —exports are an injection, so more money enters the flow → foreign buyers' spending raises firms' revenue → firms produce more and pay more income to households → national income rises (a multiplier effect may amplify this).