A-LEVEL ECONOMICS • EXERCISE SHEET

4.2 Introduction to the circular flow of income

Name: ____________ Class: ________ Date: __________ **Total: 19 marks**

KEY WORDS circular flow of income 收入循环流 • injections 注入 • leakages 漏出 • open economy 开放经济 • leakages and injections 漏出与注入

Objective

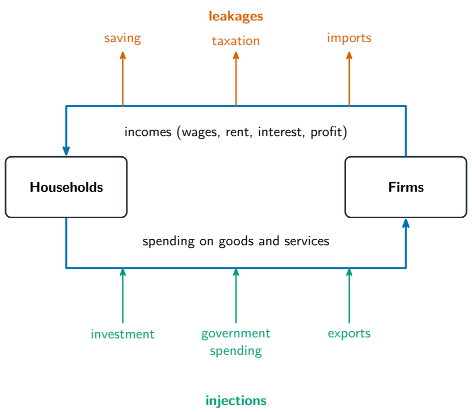
Build the skills to answer exam questions on the **circular flow of income 收入循环流** — **households and firms 家庭与企业**, **leakages and injections 漏出与注入**, and the equilibrium condition.

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).
- **Injections 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]

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).