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

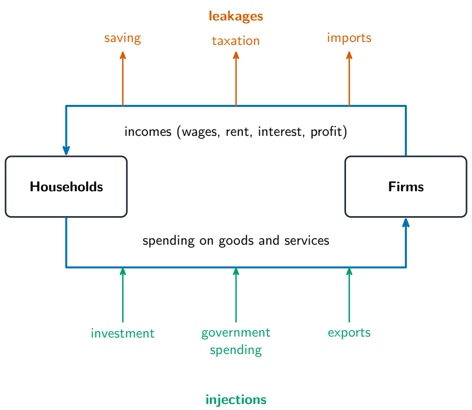
Build the skills to answer exam questions on the **circular flow of income** 收入循环流 — **households and firms** 家庭与企业, **leakages and injections** 漏出与注入, and the equilibrium condition.

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]