

Circular Flow of Income

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Meaning of Circular Flow of Income

- ❑ **Interrelationship between different the major sectors of economic activity**
- ❑ **Flow of money income or flow of goods and services across different sectors of economy**
- ❑ **Receipts= Payments**
- ❑ **The seller (producer) receives the same amount that the buyer (consumer) spends**

Types of Circular Flow

- ❑ **Real Flow-** Goods and services flow from one sector of economy to another

- ❑ **Money Flow-**
 - ✓ Goods and services produced in the economy are exchanged for money.
 - ✓ Money flows because various transactions are conducted

Circular Flow in a Two Sector Economy

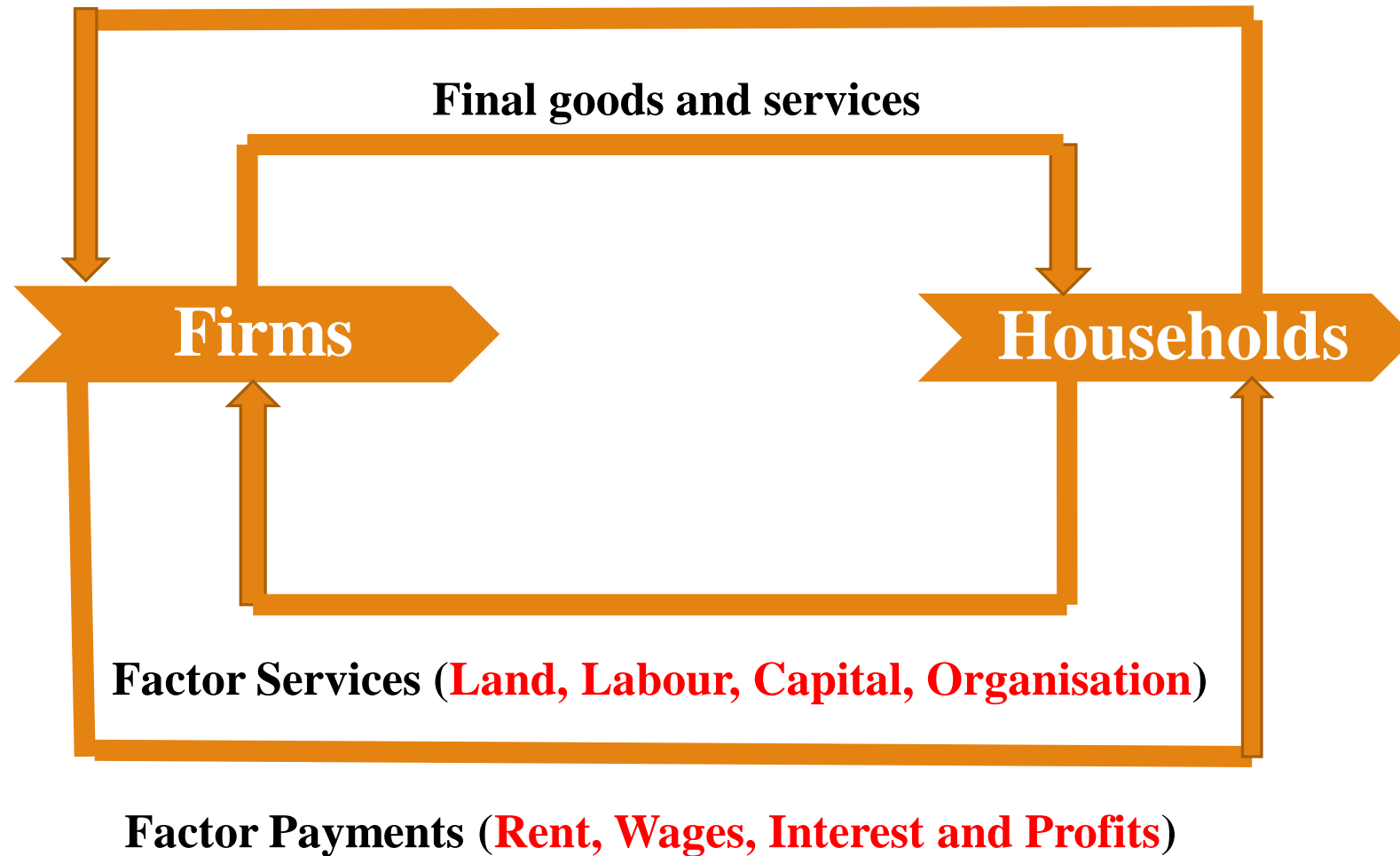
- ❑ **Two sectors in the economy-**

Households and Firms

- ❑ **No government or foreign trade**
- ❑ **Households supply factor services to firms**
- ❑ **Firms hire factor services from households**
- ❑ **Firms sell all that is produced to the households**
- ❑ **Households spend their entire income on consumption**

Circular Flow of Income in a Two Sector Economy

Consumption expenditure on goods and services



Questions

- **What is circular flow of income ?**
- **Distinguish between real flow and money flow.**
- **Explain the circular flow of income with two sector economy.**
- **What are the four factors of production and what are their remunerations called ?**

Thank You

