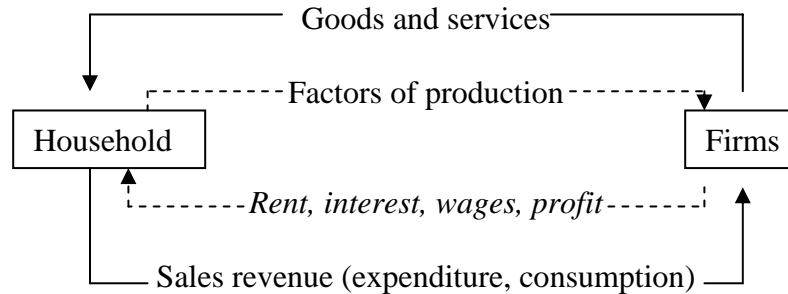


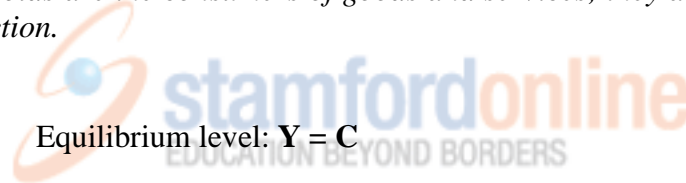
## WEEKS 6 & 7: NATIONAL INCOME

National income is the aggregate income from all the factors of production in a country at a given period of time usually a year.



### The Circular Flow of Income

*Firms are producers of goods and services; they are also employers of factors of production. Households are the consumers of goods and services; they are also suppliers of factors of production.*



The whole diagram of the circular flow of income needs to be amended for *withdrawal and injection*.

#### **Withdrawal**

These are movements of funds out of the circular flow of income i.e. any part of the income that is not passed on within the circular flow

#### **Injection**

An injection is an addition to the circular flow of income which does not come from the expenditure of domestic households

**Types of Withdrawal**

There are three types of withdrawal from the circular flow:

**Savings (s) ; Taxes (t) ; Imports (m)**

**Types of Injections**

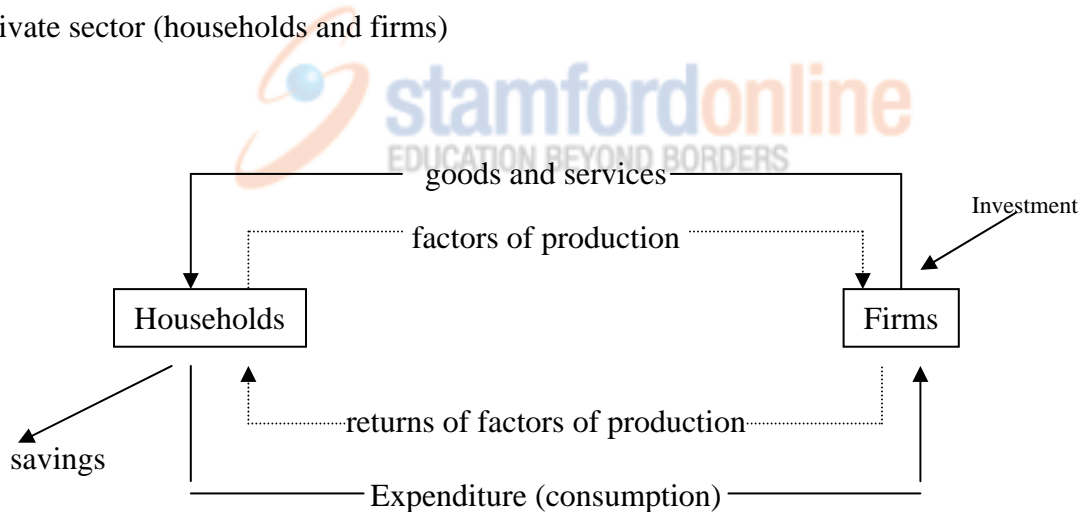
There are three types of injections into the circular flow of income:

**Investment (I) ; Government Spending (G) ; Exports (X)**

**EQUILIBRIUM IN CLOSED AND OPEN ECONOMY**

Closed economy without government intervention

Private sector (households and firms)

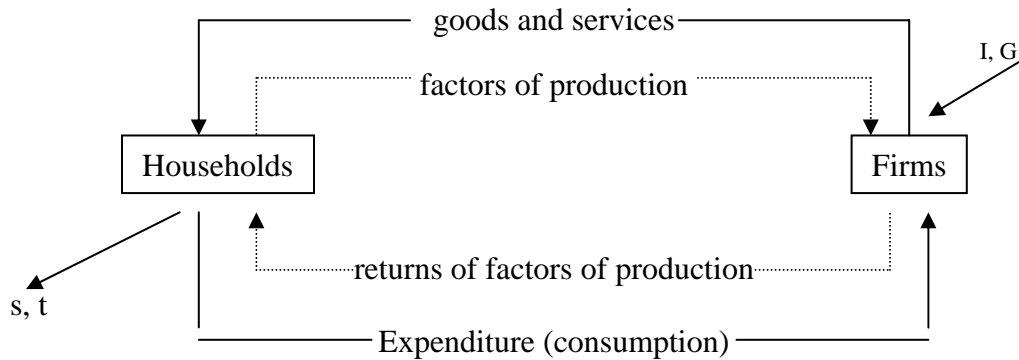


$Y = C + S$  in the short run

$Y = C + I$  in the long run

Closed economy with government intervention

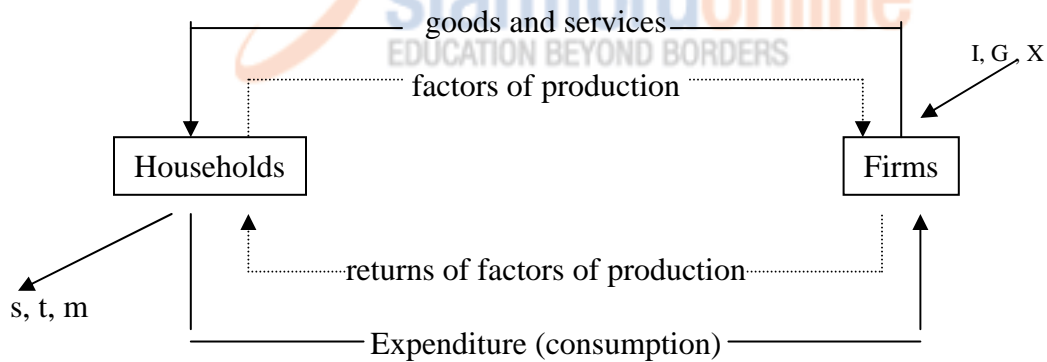
households, firms and government



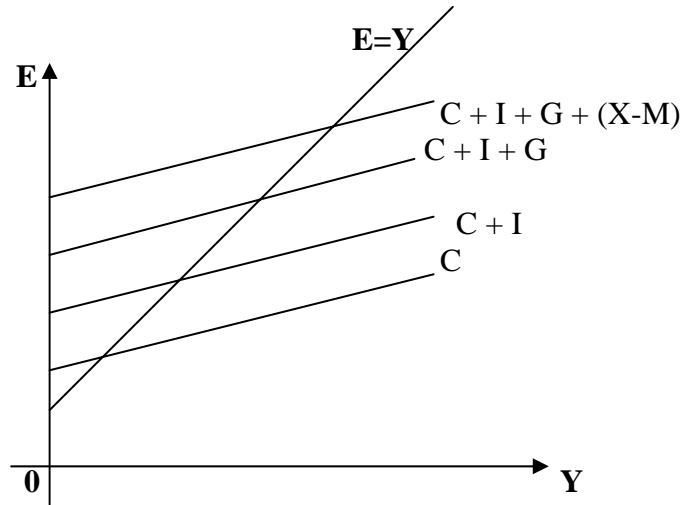
$$Y = C + S + T = C + I + G$$

Open economy

An economy which takes part in international trade



$$Y = C + S + T + (X-M) = C + I + G + (X-M)$$



**Equilibrium Level**

- a. Closed economy without government intervention:  $AD = C + I$
- b. Closed economy with government intervention:  $AD = C + I + G$
- c. Open economy:  $AD = C + I + G + (X-M)$

*Withdrawals (w) consisting of  $s + t + m$*   
 $\therefore w = s + t + m$

*Injections (J) consisting of  $I + G + X$*   
 $\therefore J = I + G + X$

*The income is in equilibrium where  $W = J$*