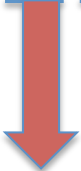
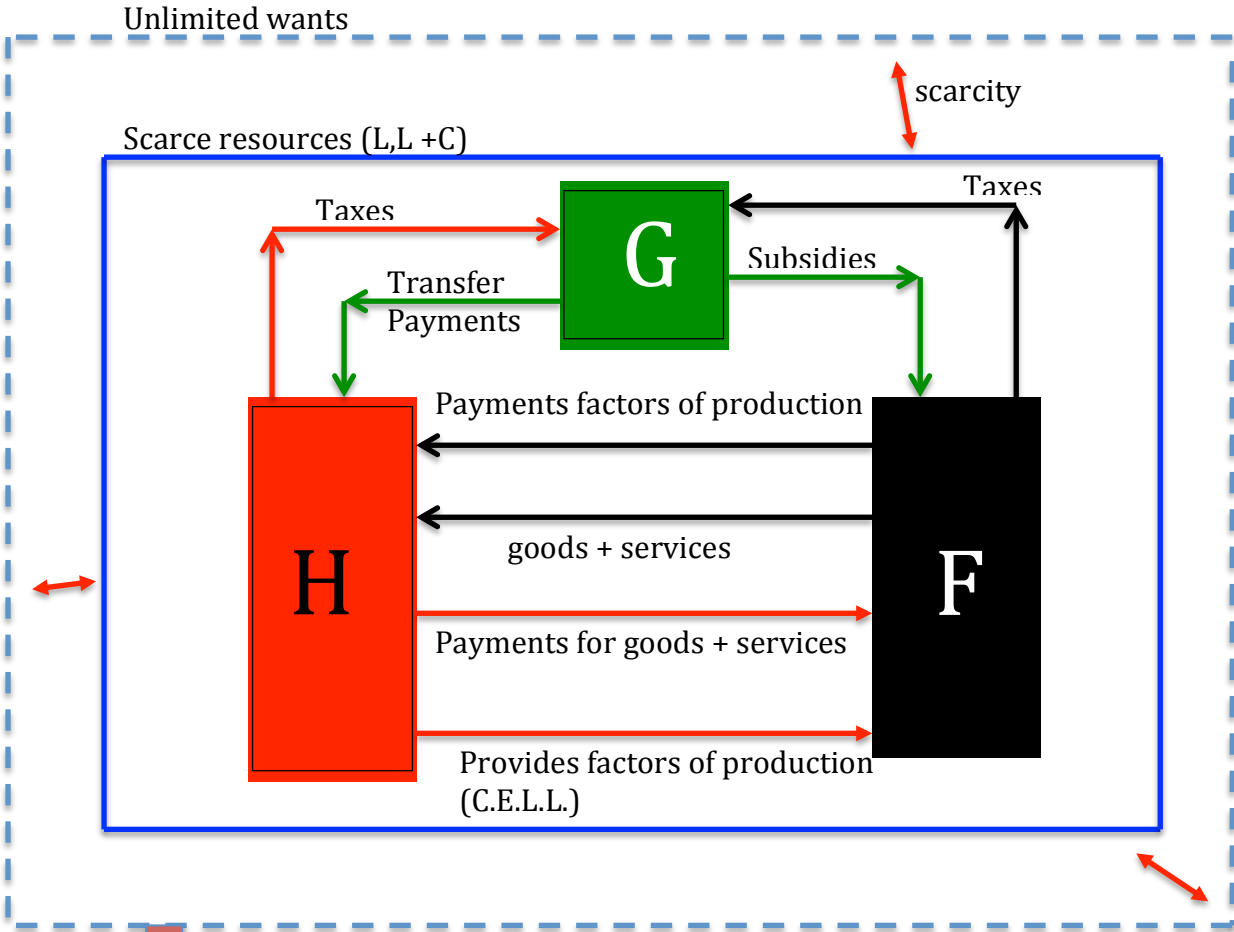


Microeconomics Circular Flow of Income

Economic Problem: Scarcity and how to allocate scarce resources. Circular flow of income shows how resources move in an economy

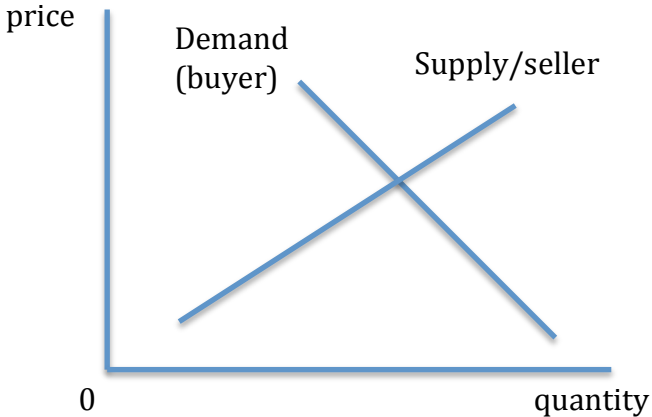


Due to scarcity Resource allocation Questions occur: Every economy must answer these **3** questions: what is the best allocative system to answer these 3 questions?

1. **What** to produce?
2. **How** to produce? (capital or labour intensive)
3. **For whom** to produce?



Answer:
Price Mechanism
Mixed Market Economy (with more or less government intervention) answers these questions using the price mechanism = market

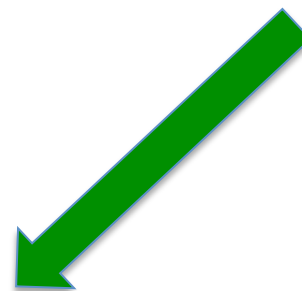


Macroeconomics Circular Flow of Income

L
Leakages:
S: savings
T: taxes
M: imports



J
Injections:
G: government
I: investment
X: exports



Macroeconomics Circular Flow of Income

Macroeconomic Circular flow shows how important government is in terms of managing the macroeconomy.

