ED 10: circular flow + business cycle

**Best Uses:**

* Key macroeconomic diagrams to highlight size of economy over time i.e. growth and contraction of economy. Allows you to focus on main government economic aim
* Distribution of income is a “development” issue. Poor distribution see

**Macroeconomics The Circular Flow of Income Showing Leakages (L) and Injections (J) + Business Cycle**

***ED10***

Trend Line



**Diagram 2: Circular Flow of Income model showing Injections and Leakages in a Macro-economy**

**Injections (J)**

###### Investment

* **Government spending**
* **Exports**

**Expansionary Policies**

**Economic activity rises. Economy grows.**

* Useful and quick to draw diagrams for government management of the economy. Diagram 1 shows economic cycle over time.
* Diagram 2 Shows injections and leakages: growth if J > L
* Both diagrams shows major role for government in the economy in terms of managing growth (job creation) and controlling inflation through either reduced injections and/or increased leakages
* Diagram 2 should be used for any discussion or reference to leakages and injections
* Details of the circular flow can be seen in terms of flow of factors of production from the household to the firm and a flow of incomes and goods and services from the firm to the household.

**Households**

**Firms**

**Leakages**

**(L):**

* **Savings**
* **Imports**
* **Taxes**

**Contractionary**

**Policies. Economc activity falls. Economy contracts**