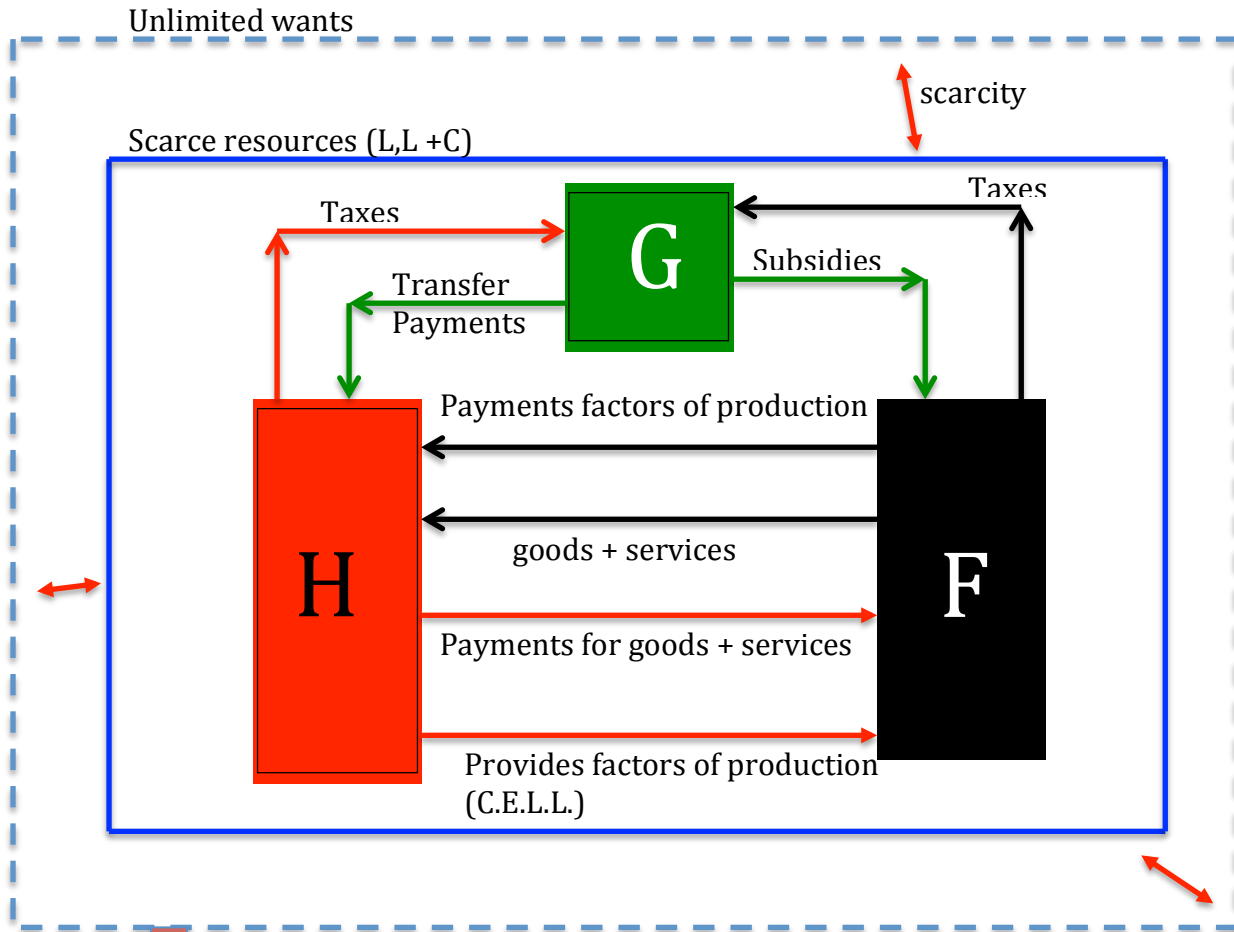


Microeconomics Circular Flow of Income

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

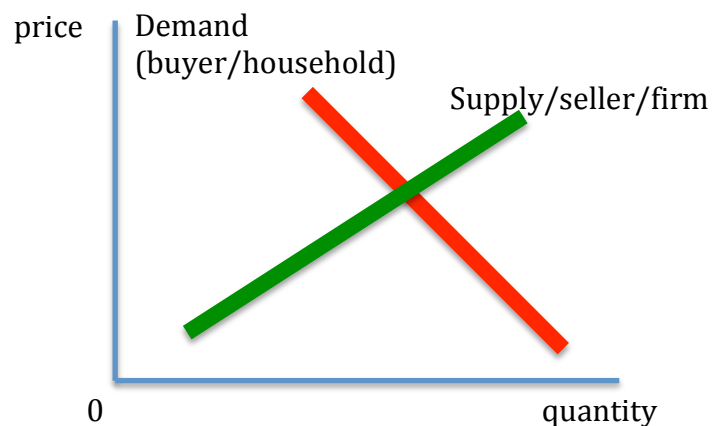


Due to scarcity Resource allocation
 Questions occur: Every economy must
 answer these **3** questions: what is the
 best allocative system to answer these 3
 questions?

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.

