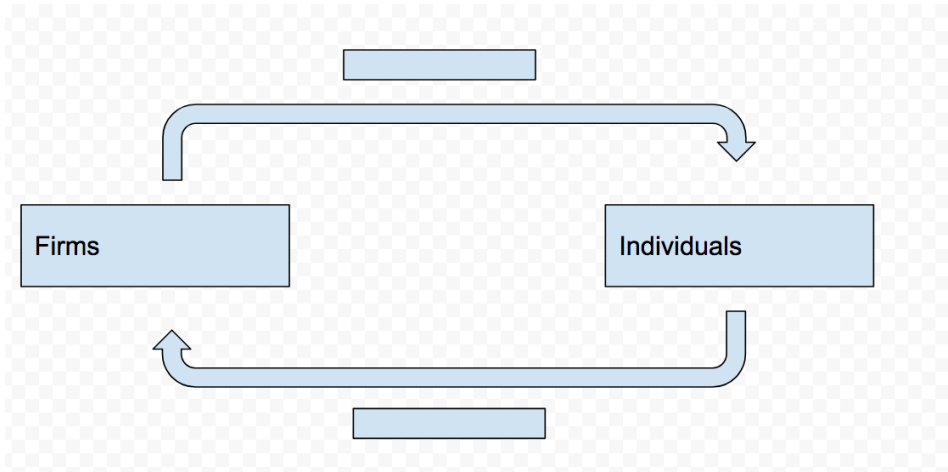


Circular flow of income

Watch the following video to help with this task:

<https://www.tutor2u.net/economics/reference/circular-flow-of-income-and-spending>

1. Describe the role of the following in an economy:
 - a. Individuals -
 - b. Firms -
 - c. Governments -
2. How does money flow from:
 - a. Individuals to firms -
 - b. Firms to individuals -
3. Use this information to label the arrows showing the flow of money on the following diagram:



4. In this model we assume that nobody will hold onto money – all money received is spent. This is an assumption of the model, which can obviously be challenged later on. Hence, we can say that $\text{income} = \text{expenditure}$ because all the money flowing from firms to people in the form of wages should then flow back to firms in the form of expenditure. If everyone spends all the money they receive, $\text{income} = \text{expenditure}$. This quantity, the amount of income, expenditure or output is called GDP. Identify 1 flaw in the model and criticise it.
5. Now think about the role of the government. How does money (or the provision of services) flow from:
 - a. Individuals to the government -
 - b. Firms to the government -
 - c. The government to individuals -
 - d. The government to firms -

6. Use these features you have identified, with the model you have already created above, and label the following diagram:

