



H T COMMERCE CLASS

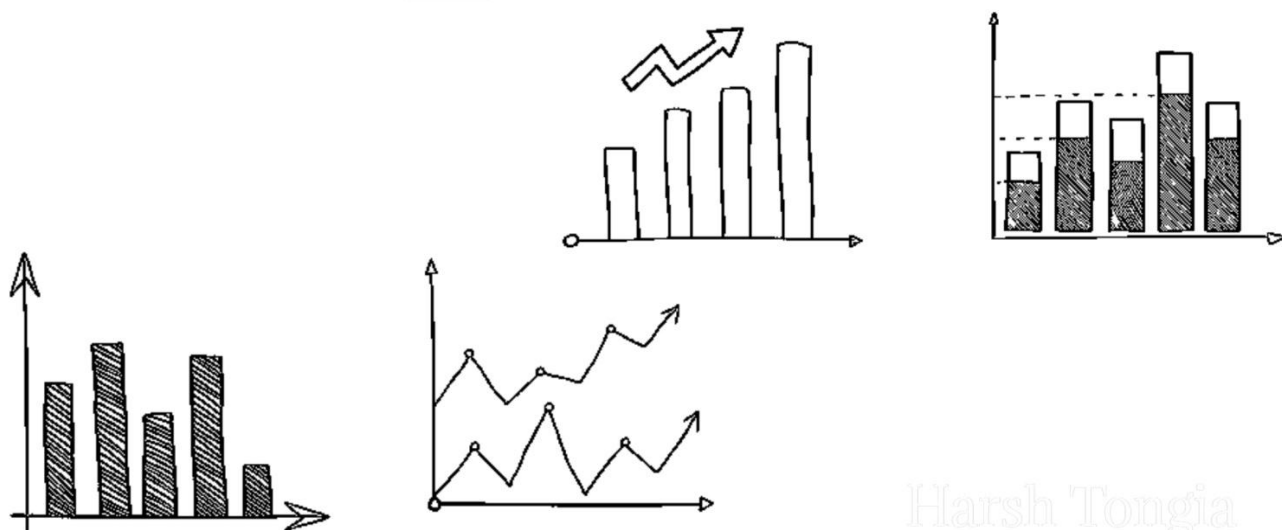
"COMMERCE KE TOPPERS"

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Macro Economics

Class : XII



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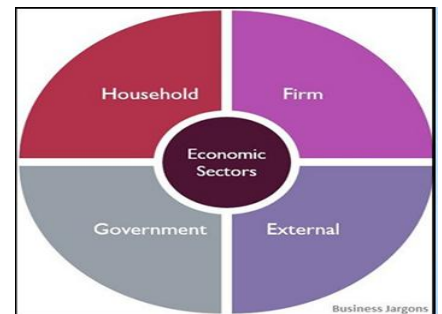
Chapter – 1

Circular Flow and Basic Aggregates

In the previous class we had learnt some important concept related to the behavior of an individual in the market. Similarly in this book we would learn about the behavior of an economy in certain conditions and we would also calculate the national income of our country along with the introduction of government budget, monetary system of our economy and at last we would familiarize ourselves with foreign exchange market. So let's start with our first chapter of this book that is **circular flow of income and basic Aggregates of national income**.

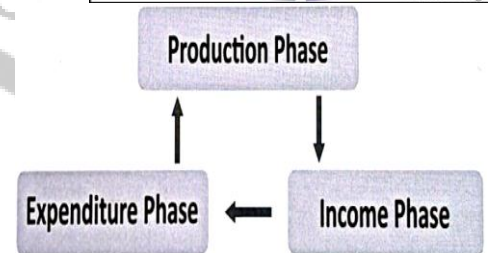
THERE ARE FOUR SECTORS IN AN ECONOMY :-

(i) Household sector (Consumers) (ii) Firms (Producers) (iii) Govt. sector (Government) (iv) External sector (Rest of the world or abroad)



Circular flow of income:-

It refers to the cycle of generation of income in production process then its distribution among the factors of production and finally its circulation from households to the production units in the form of consumption expenditure made by them on goods and services produced by these units (it is a **continuous process** due to never ending human wants).



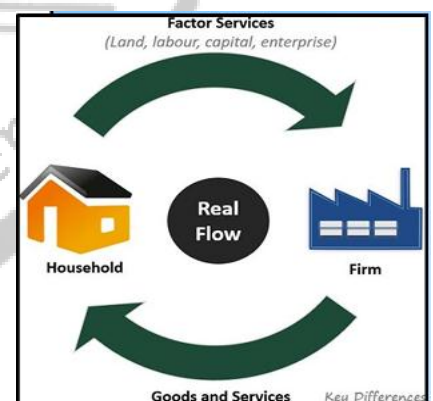
- **In Production phase (GENERATION PHASE)**, the firm produces goods and services with the help of factor services.
- **Under Income phase (DISTRIBUTION PHASE)**, the income (rent, wages, interest, profit) flows from firm to households.
- **In Expenditure phase (DISPOSITION PHASE)**, the income received by the household is spent by them on goods and services produced by the firm.
- **Factors of production** :- Land, Labour, Capital and Entrepreneurship
- **Factor payment** :- Rent, wages, interest and profit
- **Households** :- They are the owners of factors of production and consumers of goods and services.
- **Firms** :- They produce goods and services and sell them to households.

Types of Circular flow :-

1. Real flow (physical flow) :-

It refers to the flow of factor services from household to firm and the corresponding flow of goods and services from firms to households without involvement of money.

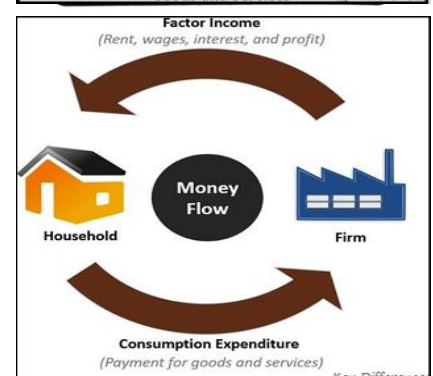
It determines the magnitude of growth in an economy as price fluctuations doesn't effects the flow.



2. Money flow (Nominal flow) :-

It refers to the flow of factor payment from firm to household for their factor services and the corresponding flow of consumption expenditure from household to firm for purchase of goods and services produced by the firm.

It involves exchange of money between 2 sectors.



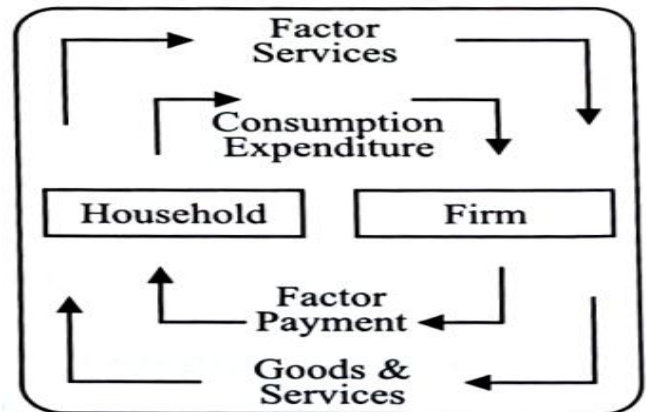
- **Circular flow in different economics :-**

1. **In a simple economy(2 sector economy)**

(Household and firms)

It is assumed that the entire amount of money which is paid by the firm as factor payment is given back by the factor owners (households) to the firms as consumption expenditure.

According to the flow, firstly the firm would pay money (factor payment) to the household for rendering their factor services. Thereafter, the household spend this money on consuming goods and services produced by these firms and hence the money circulates.

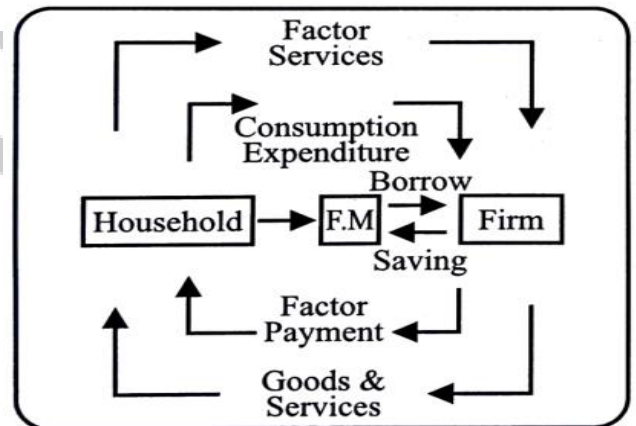


- **In a 2 sector economy (with financial market):-**

Financial market:- It refers to the institutions such as banks, insurance companies etc. which transact in loanable funds.

Savings of households accumulated in the financial market are utilized by the firms for investment purpose and hence the flow of income continuous.

3 sector and 4 sector economy is out of syllabus as per the guidelines of the board



- **Stock and flow:**

- **Stock:** Stock variable refers to that variable, which is measured at a particular point of time. for example Stock of goods In godown as on 31st March 2019, It means stock variables are not time dimensional

- **Flow :** It refers to that variable which is measured over a period of time, for example Production of goats during the month of January 2019

S.No	Stock	Flow
Meaning	It refers to the amount of unsold stock at a particular point of time	It refers to the complete study of stock over a period of time.
Time	Measured at a particular point of time	Measured over a period of time
Nature	It is a static concept	It is a dynamic concept
Dimention	Not time dimensional	Time dimensional
Example	Example:- Stock of goods in godown at 31 st July	Example:- Study of stock over the complete year.

- **Leakage:** It refers to the the withdrawal of money from the flow of income circular flow of income, when a house all save his money in the form of cash {Circular flow of income Main se a cash ko Nikal Ke save karna but not in bank , in the form of cash

Diagram:

- **Injection:** It refers to the introduction of income into the circular flow of income cycle for example FDI, When foreigner invest in our economy then it will treat as injection of money in the the circular flow.

Diagram:

S. No	Leakages	Injections
1	It refers to the withdrawal of money from circular flow	It refers to the introduction of money in circular flow
2	When household or firm saves a part of their income it leads to a leakage in the circular flow of income.	When household or firm borrows from some external sources such as financial institutions it add to their income
3	Leakage refers to decrease in level of demand which leads to lower level of output in an economy.	Injection refers to addition to the level of demand which leads in higher level of output in an economy.
4	Leakage reduces the flow of income	Injection increases the flow of income.

Equilibrium in an economy is achieved when Injection = Leakage

