



# Circular Flow of Income

- Graphical depiction of income and money flow of any economy.
- The inner circle shows real flow of goods/services and movement of factors of production from households to firms whereas outer circle shows flow of compensation to factors of production and households expenditure on goods/services produced in the economy.

- For Open economies *circular flow of income* also account for leakages and injections taking place in any economy.

MEGALECTURE

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- Taxation (both direct and indirect taxation), imports and savings are leakages from the economy. Government

- expenditure, exports and investment are injections for they inject **more money** into an economy.