Circular Flow of Income as a model that explains how money/ income circulates in an economy.

In macroeconomics we divide the economy in four categories:

a. **_Households:_** individuals living in homes who are consumers and provide factors of production for economic activity
b. **_Firms:_** corporations and businesses that use the factors of production provided by households to produce goods and services.
c. **_Government:_** government is a facilitator making sure all economic activity takes place smoothly and no group is being oppressed
d. **_International Trade:_** all individuals and businesses based out of our country with whom your businesses interact to buy and sell products are classified as international trade

Leakages / Withdrawal: are outflows of money / finance from the economy.

1. Taxes
2. Imports
3. Savings

Injections: is some additional inflow of money / finance in the economy.

1. Government Expenditure
2. Exports
3. Investment
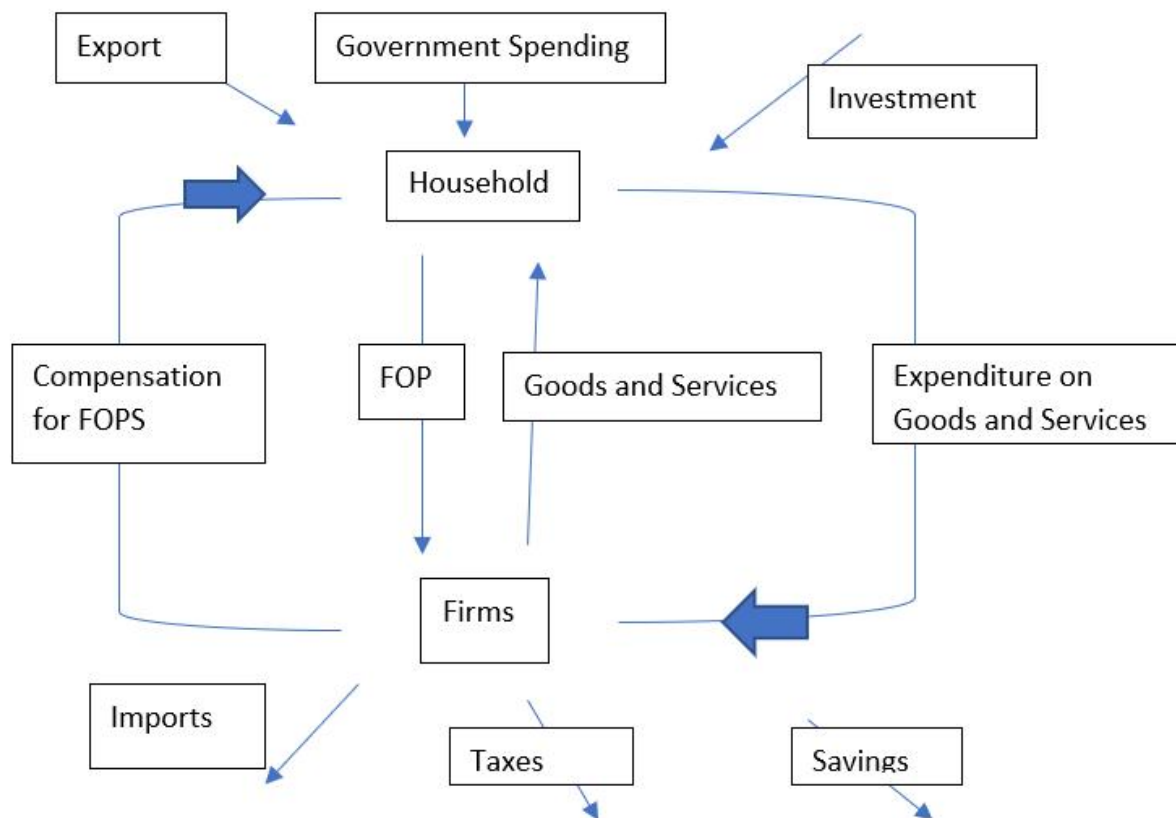
Circular flow of income helps us to understand the Keynesian Cross Model.

The Keynesian Cross Model is a model that predicts the value of a country's GDP. The Keynesian Cross is a more advanced version of Macroeconomic Equilibrium which says that a country's GDP is determined through the intersection of its AD and AS.

Keynesian Cross Model

AD: aggregate demand is the total demand for all goods and services in the economy based on different general price levels. It is made up of the following components.

a. Consumption
b. Investment
c. Government Spending
d. Exports
e. Imports

AD = C + I + G + X- M

Aggregate Expenditure: is total demand for all goods and services of the economy based on different <u>income levels.</u> It is also made up of the following 5 components which AD has:

    a. Consumption
    b. Investment
    c. Government Spending
    d. Exports
    e. Imports

1. ***Consumption Function:*** is an equation that lists variables that affect a country's consumption level.
2. ***Investment Function:*** is an equation that lists variables that affect a country's investment level.
3. ***Government Spending Function:*** is an equation that lists variables that affect the country's government spending level.
4. ***Export Function:***
5. ***Import Function:***