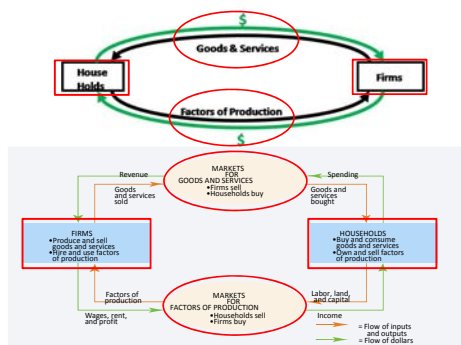


The Expanded Circular Flow

Adding New Players,
Interactions & Flows

The Core Circular Flow Model

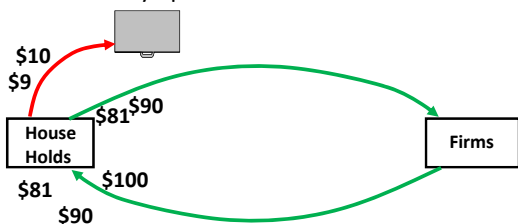


New Players:

- Financial Institutions
- Government
- "The Rest of the World"

Savings = Not Spending

- Imagine Savings of 10% of Income
- Creates a "Leak" Out of the System
- Economy Spirals Downward

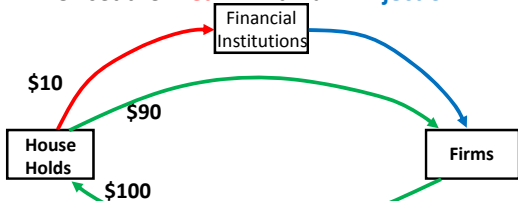


A New Player:

- **Financial Institutions**
 - Banks
 - Credit Unions
 - Mutual Funds
 - Stock/Bond Markets

Financial Institutions

- Link Borrowers & Lenders
- Put Money Back Into System
- Offset the "Leak" with an "Injection"



Yet Another Player

- **Government**
 - Federal
 - State & Local
 - Special Districts

Governments' Role

- **Set Ground Rules** (Laws/Courts)
- **Be A Buyer or Provider of Goods**
 - Private Goods
 - Public Goods
- **Fix "Market Failures"**
 - Lack of Competition
 - "Externalities" or "3rd Party Effects"
- **Redistribution of Income?**
- **Promote Economic Stability?**

One Approach to the Role of Government

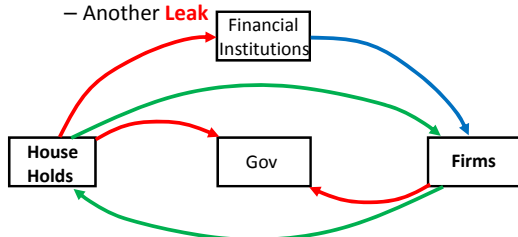
Expanding the Circular Flow

Circular Flow Revisited: Gov. 1

- Government

– Taxes

– Another Leak



Circular Flow Revisited: Gov. 2

- Government

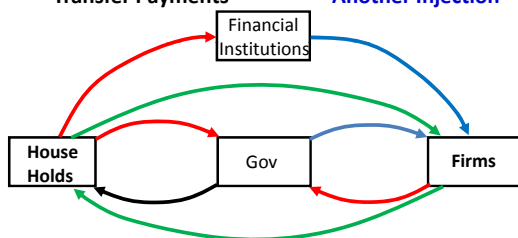
– Factor Payments

– Transfer Payments

- Government

– Spending

– Another Injection

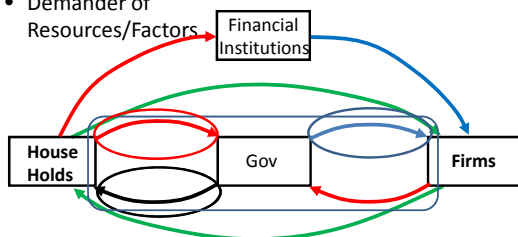


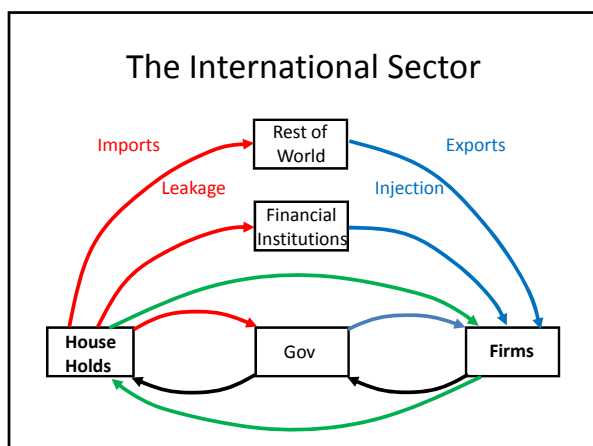
Government's Role

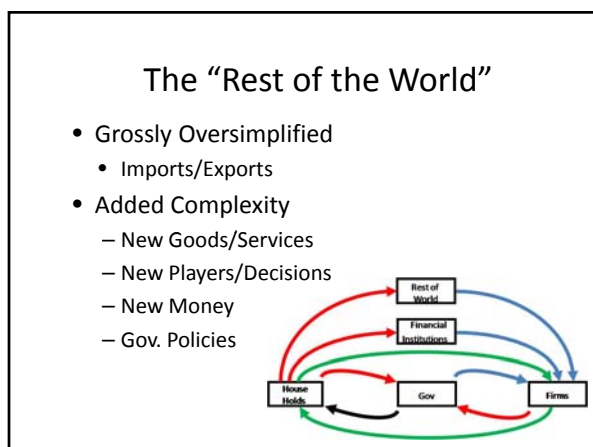
- Demander/Supplier of Goods & Services

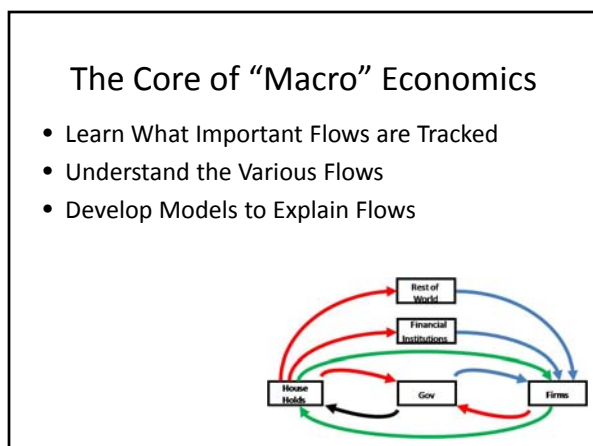
- Demander of Resources/Factors

- Redistribution Agent
- Economic Stabilizer









The Core of “Macro” Economics

- Learn About the Interplay:
 - How Aggregate Economy is Supposed to Function
 - What Can Go Wrong
 - What Policy Options are Available to Fix



Wrap Up:

- New Players in Expanded Circular Flow
 - Financial Institutions, Government, Rest of World
- New Flows
 - Leakages & Injections
- Broad Framework
 - Tracking the Economy
 - Understanding/Evaluating “Shocks” to System
 - Understanding/Evaluating Public Policy
