

The Simple Circular Flow: Model Development

A Basic Macro Model that
Gives the Broad Overview
Of a Market Economy

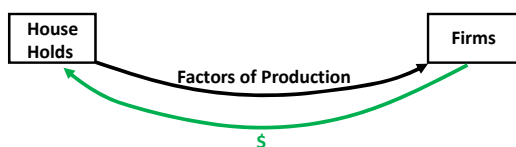
Key Players: Interaction = Flows

- A Flow Of **Real** Stuff: Outputs
- A **Financial** Flow



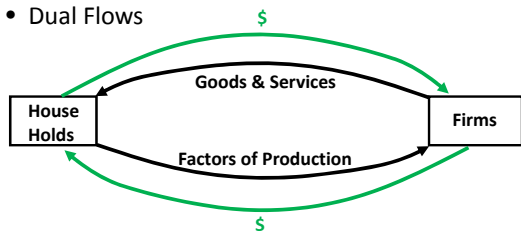
Another Interaction: Set of Flows

- A Flow Of **Real** Stuff: Inputs
- A **Financial** Flow



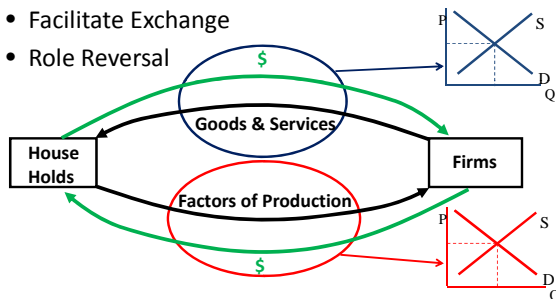
The Simple Circular Flow

- Aggregation
- Dual Interaction
- Dual Flows



The Role of Markets

- Coordinate Buyers & Sellers
- Facilitate Exchange
- Role Reversal



The Goal of Microeconomics:

- Take a Closer, More Detailed Look at Process
- Examine Interaction Between Players
 - Buyers & Sellers
 - Exchanges
- Study the Operation of Markets
 - Supply/Demand/Equilibrium
 - Role of Prices
 - See How Markets Coordinate Activity
 - See How They Fail

The Goal in Macroeconomics:

- **Expand Model**
 - Add Players/Flows
- **Examine Flows**
 - Identify/Understand the Various Flows
 - Learn What Important Flows are Tracked
- **Develop Models to Explain Flows**
- **Learn:**
 - How Aggregate Economy is Supposed to Function
 - What Can Go Wrong
 - What Policy Options are Available to Fix

Wrap Up:

- The Base Level Circular Flow
- Dual Flows: Real & Financial
- Dual Interactions: Outputs & Inputs
- Role of Markets in Coordinating
- Role Reversals in Markets
- Extreme High Level Aggregation
