

Yogoda Satsanga Mahavidyalaya

B.COM Sem III

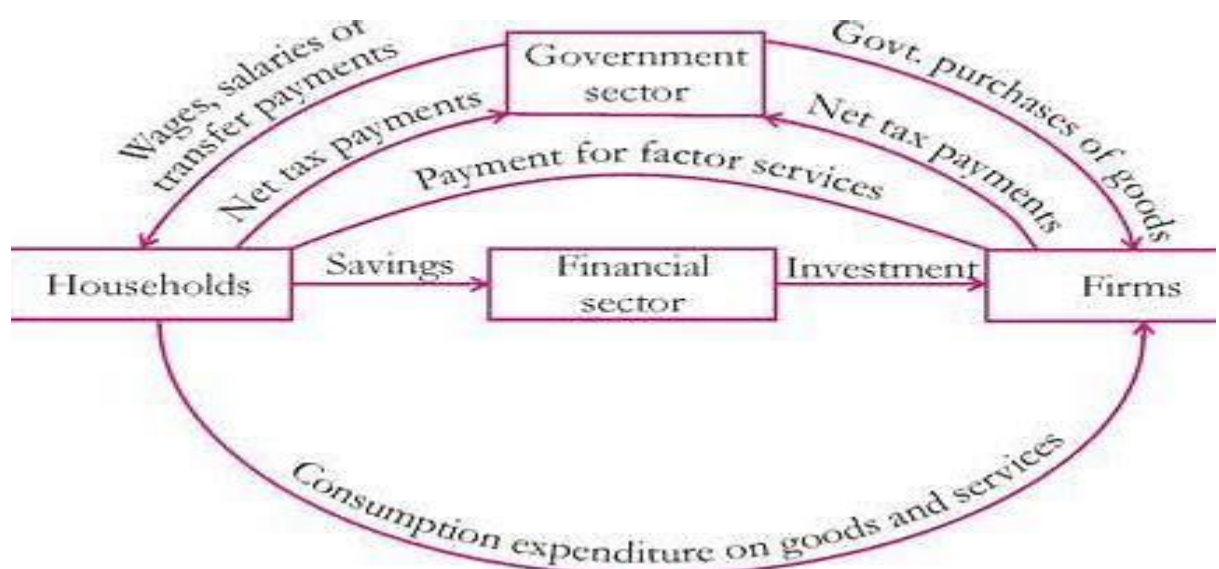
Subject: Macroeconomics

Topic: Circular Flow of Income in a Three Sector Economy

Circular Flow of Income in a Three-Sector Economy

- The three-sector model adds the ***government sector*** to the two-sector model.
- The three-sector model includes:
 - (1) Households,
 - (2) Firms, and
 - (3) Government.
- It excludes the foreign sector.
- The government sector consists of the **economic activities** of local, state and federal governments.
- Flows from households and firms to government are in the form of taxes.

- The income the government receives flows **to firms and households in the form of subsidies, transfers, and purchases of goods and services.**
- Every payment has a corresponding receipt; that is, every flow of money has a corresponding flow of goods in the opposite direction.
- As a result, the aggregate expenditure of the economy is identical to its aggregate income, making a circular flow. The circular flow of income in a 3 sector economy (with financial system) can be illustrated as under:



Circular Flow of Income in a Three Sector Economy (with financial sector).

Ms. Simran Kaur
Assistant Professor
Department of Commerce
Yogoda Satsanga Mahavidyalaya

