

PRINCIPLES OF ECONOMICS

Lecture 35 HOW DOES AN ECONOMY WORK?

October, 2015



TOPICS OF DISCUSSION

1. WORKING OF AN ECONOMY

- Circular Flow of Economic Activities
 - Two Sector Economy
 - Four Sector Economy

MICRO VS MACRO ECONOMICS

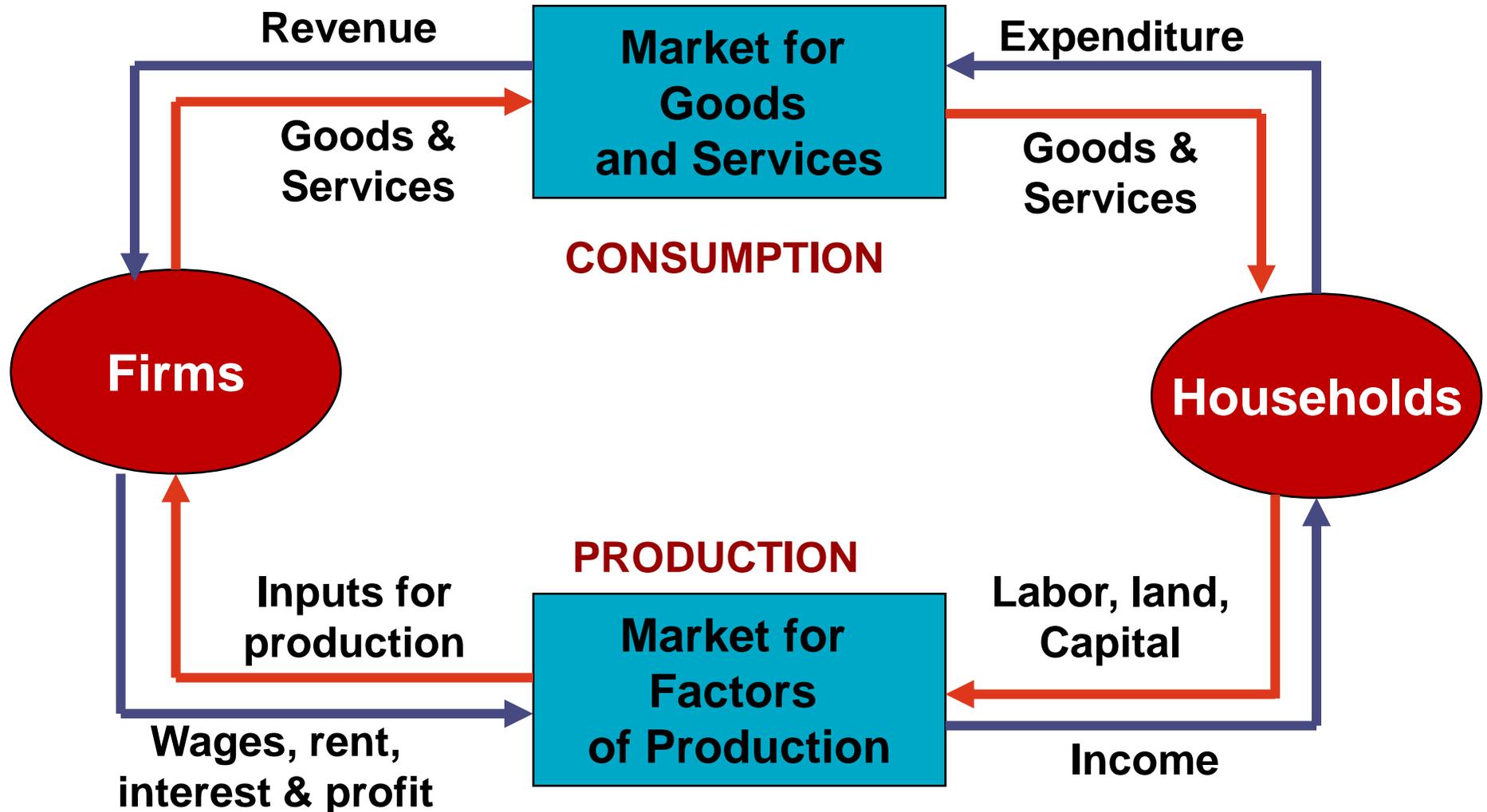
- Microeconomics is the study of economics at an individual, group or company level. i.e. it focuses on how decisions are made by individuals and firms and the consequences of those decisions.
- Macroeconomics is the study of national economy as a whole. i.e. how the actions of all the individuals and firms in the economy interact to produce a particular level of economic performance.

MICRO Vs MACRO ECONOMICS

MICROECONOMIC QUESTION	MACROECONOMIC QUESTION
What determines the cost to Shoolini University for offering a new program?	What determines the overall level of prices in the economy?
What government policies should be adopted to make it easier for underprivileged students to attend University?	What government policies should be adopted to promote employment generation in the economy?
What determines whether Shoolini University opens a new office in foreign country?	What determines the overall trade in goods, services and financial assets between the India and other countries of the world?

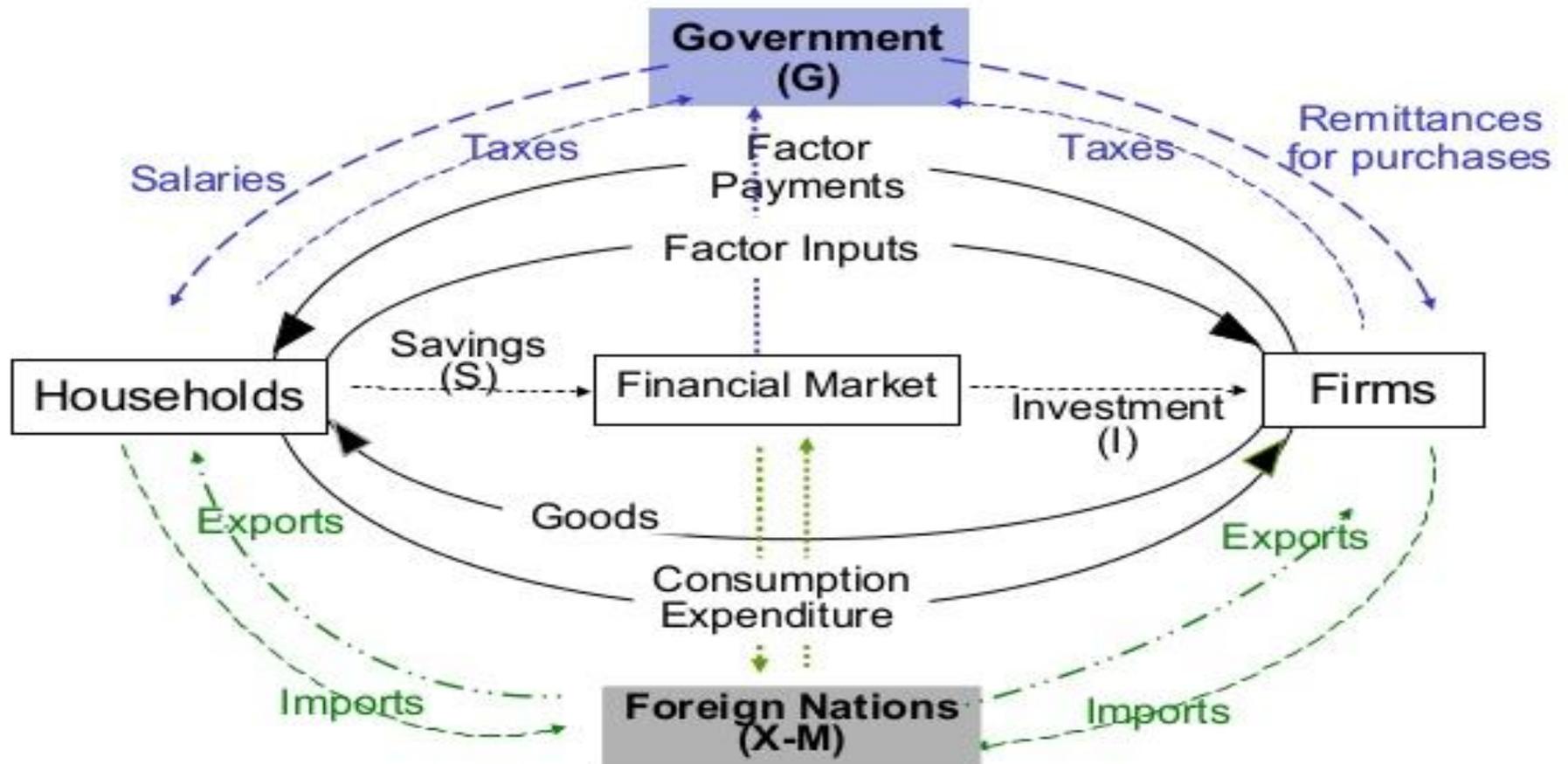
HOW DOES ECONOMY WORK?

Circular-Flow of Economic Activities (Two Sector Economy)



CIRCULAR FLOW OF ECONOMIC ACTIVITIES

Circular Flow of Income (Four Sector Economy)



CONCLUSION

- Economy consists of different sectors- Firm, Household, Government
- All sectors are interdependent- Expenditure of one is income of another sector
- In an open economy, relationship with rest of the world exists in the form on export and imports

THANK YOU 😊