

2.4.1 National income

a) *The circular flow of income*

b) *The distinction between income and wealth*

- National income: the amount received by various agents in an economy, by households, firms and government, or the flow of income
 - The same as GDP
 - The same as total spending
 - The same as gross domestic income, which is all income earned
 - It assumes leakages and injections have been considered
- National income isn't a stock of money such as savings in a bank, physical assets such as buildings or shares
- Asset: An accumulation of wealth; factors which can be used to provide income in the future
- Wealth: a stock of assets, e.g. factories or land. These resources aren't currently being used in the circular flow of income, but could at some point
- Income: a flow of money
- Collateral: Assets used as security as a loan
- There is a strong correlation between wealth and income as the ownership of wealth can mean there are more interest payments or rent. When wealth changes in value, there is an impact on people's spending and therefore incomes as people can purchase more expensive assets and have more money to save
- The circular flow of income:
 - A basic way of understanding how different parts of the economy fit together
 - Shows connections between different sectors
 - Shows flows of goods and services and incomes to factors of production
 - Shows how national income or GDP can be calculated
- Four key parts of the Circular flow model:
 - Households: they receive income through wages and salaries from jobs and investments and then try to buy goods and services supplied by firms (consumer spending)
 - Business: they hire land, labour and capital inputs when making products for which they pay wages and rent. Firms receive payment from consumers (creating revenues and profit)
 - Governments: collect taxes (T) to fund spending on public services. State spending is labelled G
 - External sector: The UK buys imports from other countries (M) and overseas business and consumers buy UK products- exports (X)

- Economic growth happens when the circular flow of income increases. If it shrinks the economy is contracting and possibly in a recession