

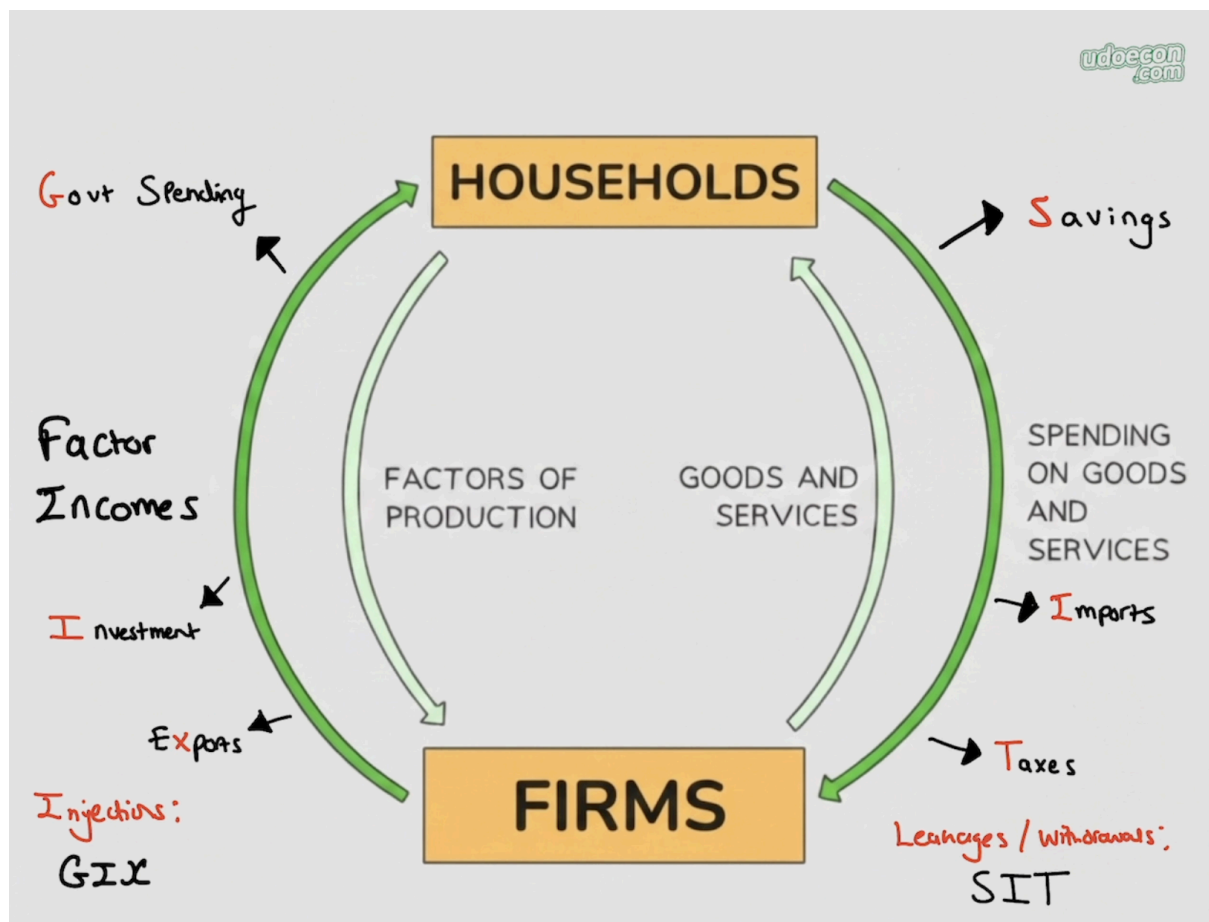
Injectons and Withdrawals

In the circular flow, households provide factors of production (labour, land, capital, enterprise) to firms. Firms pay households factor incomes (wages, rent, interest, profit).

Households then use this income to buy goods and services from firms. This spending becomes firm revenue and keeps the flow of income moving around the economy.

What injections and withdrawals mean

Money does not always stay in the circular flow. Some spending adds extra money into the flow (injections), while other decisions remove money from the flow (withdrawals or leakages).



Injectons

Injectons are spending flows that add income to the economy and make the circular flow larger.

- Government spending (G): spending on public services.
- Investment (I): firms buying capital goods (machines, buildings, tech)
- Exports (X): overseas demand for UK goods and services brings money into the UK economy

Remember injections using GIX .

Withdrawals

Withdrawals (leakages) are flows that remove income from the circular flow and make it smaller.

- Savings (S): income not spent on consumption
- Imports (I): spending that goes to foreign producers instead of domestic firms
- Taxation (T): income taken out of households and firms and not immediately spent back into the economy

Remember withdrawal leakages using SIT .

How injections and withdrawals affect real GDP

The relative size of injections and withdrawals affects national income and output. If injections are greater than withdrawals, total spending rises, firms sell more, real GDP tends to rise and the size of the circular flow of income expands .

If withdrawals are greater than injections, total spending falls, firms sell less, real GDP tends to fall and circular flow shrinks .