

Discuss the circular  
flow diagram and  
what you feel the  
government's role  
should ...

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The Circular Flow and the Role of Government The purpose of this paper is to study and analyze the Circular Flow of Income and Expenditures and what role government plays in maintaining its balance. Either it should get involved playing its role or it should stand aside and watch it from a distance.

According to the Circular Flow of Income and Expenditure, the economy is characterized into 5 key sections that are firms, households, government, financial markets, and the world. According to the flow chart, the payment is moved from one section to another. For example, firms pay their laborers against their service; those laborers then spend that money in goods and services that are manufactured by those firms. Gross Domestic Product (GDP) and Gross Domestic Income and Consumption are used to calculate this (McEachern).

Figure 1: (McEachern)

Governments are formed to help, guide, and lead the public and to provide them with the basic necessities. Therefore, households expect a lot from the government, which doubles their role in this regard. Keeping this scenario in mind, the role of the government is a crucial one, which should be focused on helping the people by solving their issues (McEachern).

It has been witnessed that households are also supposed to pay net taxes to the government while the government also increases the leakages in the circular flow by adding government expenditures (McEachern). The government leakage in the circular flow is the government expenditure or the government spending made by the government during a fiscal year

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which affects the overall circular flow. Thus, government has certainly failed in maintaining balance in the circular flow of income and expenditures. It is high time that the government must understand its role and act responsibly in this regard as it is getting difficult for households to maintain the flow effectively.

#### Work Cited

McEachern, William A. *Microeconomics: A Contemporary Introduction*.  
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