**Essay Question 25**

**Assess the relative importance of the various components of the circular flow of income in driving economic growth in different economies. [25]**

Introduction

The circular flow of income of an economy refers to the economic activities that will lead to injections and withdrawals, which affects the level of economic growth. These injection and withdrawals will change as a result of the changes in the values of components affected by economic activities. As economic activities vary according to the different nature of the economy, it is imperative to examine how the circular flow of income will be affected by different economies in their pursuit of economic growth.

Main Body

1. Explain the components of circular flow of income and the mechanism of circular flow of income (with impact of the multiplier process)

2. Explain how different economies are classified and how it would affect the circular flow of income and thus, affect the pursuit of economic growth

3. Explain and evaluate the significance of the components of circular flow of income that would be important to a small and open economy in the pursuit of economic growth

4. Explain and evaluate the significance of the components of circular flow of income that are imperative to the large and less-open economy in the pursuit of economic growth

Conclusion

The understanding of the components of circular flow of income and its significance based on the size and degree of openness of the economy is imperative as it would affect how policymaker’s choice and duration of policies in the pursuit of economic growth. The impact of the policies on the economy in achieving economic growth will be impactful if these considerations are asked.