



**Unterrichtsmodul:**

# **National Accounts – Circular Flow Model and GDP**

## Lesson Plan: Circular flow model and GDP

1. Let students watch a YouTube video about the circular flow of income.  
Search for the following video: *“Circular Flow of Income - Macroeconomics”*
2. Together with students, recap on the blackboard what Mr. Holden has just explained.
  - Discuss how GDP is being created, how it is being distributed and how it is being spent. Introduce the terms national income.
  - Redraw the two-sector model on the blackboard and mark GDP and GNI
  - Introduce a third sector FINANCIAL SECTOR.
  - Introduce the equations  $Y=C+I =C+S / I=S$
  - Add a fourth sector OVERSEAS.
  - Extend equation to  $Y= C+I+ (X-M)$
3. Hand out the worksheet. Let students work on it individually or in pairs.
4. Discuss solutions. Introduce the terms for the three different levels/sectors of an economy.

## Material A: Economic – national accounts

### WHAT IS THE DIFFERENCE BETWEEN GDP AND GNI

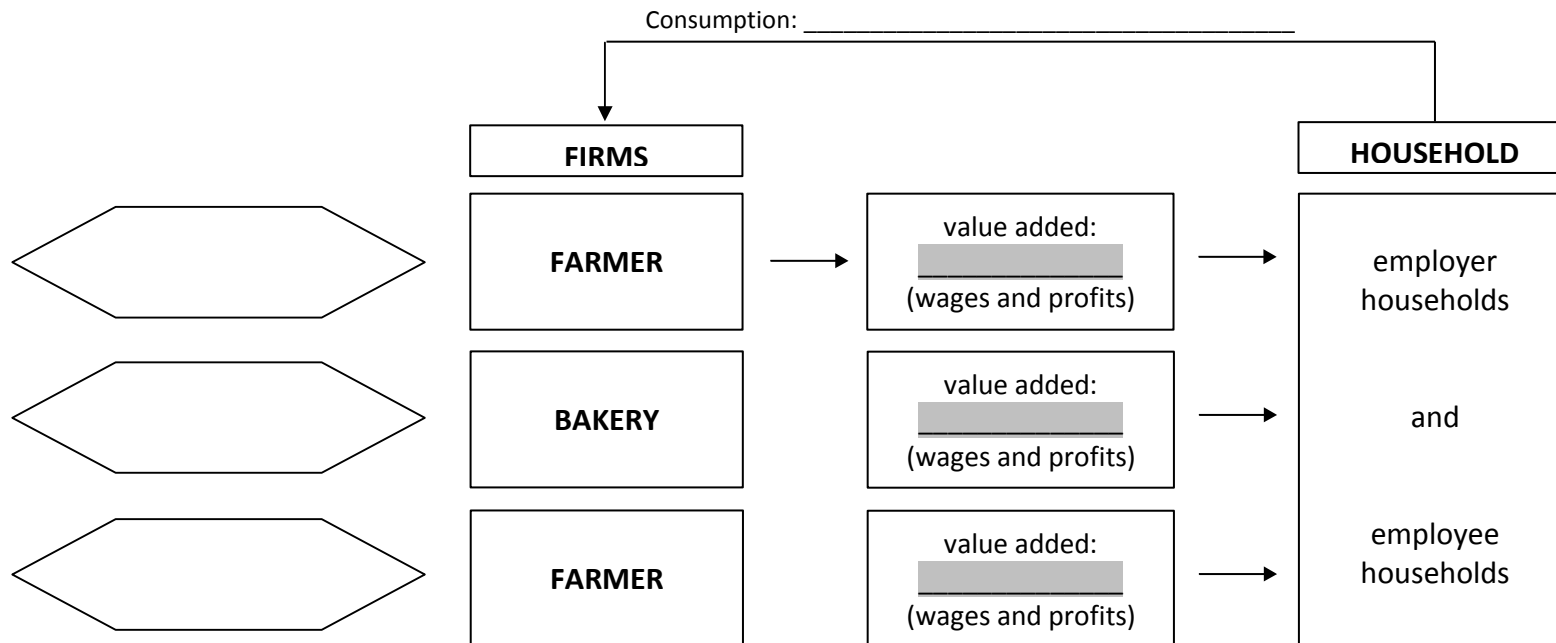
GDP = gross domestic product = market value of all goods & services \_\_\_\_\_

GNI = gross national income = all the money earned by \_\_\_\_\_

#### Task 1: Say whether these figures go into the calculation of GDP, GNI or both!

- a) Mr. Schmidt is German and works in Germany. → \_\_\_\_\_
- b) Ms van der Vaart is Dutch, she lives in the Netherlands but she works in Germany. → \_\_\_\_\_
- c) Ms Meier lives in Germany, but she works in Austria. → \_\_\_\_\_

### WHERE DOES GDP COME FROM? (Entstehungsrechnung)





**Task 2: Label the circular flow model with the correct sums of value added in each production level and calculate the total amount of consumption expenditures.**

A farmer grows and harvests wheat. He has to pay wages to his employees and wants to make a profit. The value added (Wertschöpfung) in the production, i.e. the sum of wages and profits, equals 500 units of money and goes to private households.

The bakery buys the wheat to produce bread which is sold on to a supermarket chain for 900 units of money. It also has to pay wages and wants to earn a profit. This price now includes the payment made to the farmer (Vorleistungen). The value added by the bakery therefore is only \_\_\_\_\_ units.

The supermarket now also wants to be able to pay wages and to earn a profit by selling the bread to the consumers for 1100 units of money. The value added by the supermarket of course is lower than that.

## Material B: Economic – national accounts – Teacher’s worksheet

### WHAT IS THE DIFFERENCE BETWEEN GDP AND GNI

GDP = gross domestic product = market value of all goods & services **produced within a country**

GNI = gross national income = all the money earned by **residents of a country**

**Task 1: Say whether these figures go into the calculation of GDP, GNI or both!**

- a) Mr. Schmidt is German and works in Germany . → **GDP, GNI**
- b) Ms van der Vaart is Dutch, she lives in the Netherlands but she works in Germany. → **GDP**
- c) Ms Meier lives in Germany, but she works in Austria. → **GNI**

### WHERE DOES GDP COME FROM? (Entstehungsrechnung)

