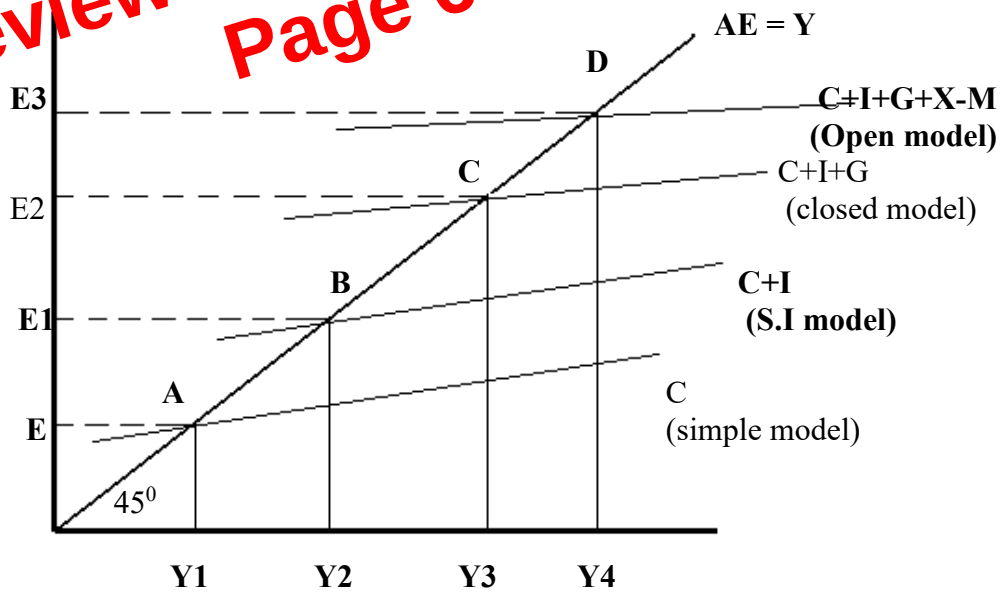
sector to the government this is a leakage similar to the saving leakage. Which also causes a potential for an injection such as income back into the circular flow of income but in the form of government spending on produced goods and services. However this is of the assumption that

- ❖ Government interacts with the financial sector as a borrower or lender or is funded by taxes received

The open model

In most real world economies exist the open model with leakages from the domestic income expenditure flows in the form of payments made for goods and services produced by firms in other countries (Imports) and injections of income back into the domestic flows as a result of sales of goods by domestic firms to be consumed in other countries (exports). The national income or expenditure is a continuous flow which can be measured in different ways .Sometimes the processes is usually complicated by the possibilities of leakages and injections arising from private saving and investment ; government taxation and spending of foreign trade and capital investment.
In the open model the value of export and import determines the placement line along the aggregate expenditure to equal income for instance if exports is more than imports the aggregate expenditure functions shows AE=C+I+G+X-M occurs above the closed model which only shows C+I+G.
The equilibrium condition around this model is outlined as C+I+G+X-M means that total demand for national output equal national output as shown in the diagram below.



From the diagram above the national equilibrium of the simple model occurs at point A and B. At point A it occurs if consumer expenditure is only used or where AE= C. However at YI and Y2 represent the level of real GDP and E, E1represents the level of expenditure within the simple model .In the closed model the national income