**Question 1:**

**Q:** Explain the components of the Circular Flow of Income model and discuss how injections and leakages influence the overall economy.  
**[10 Marks]**

The Circular Flow of Income model illustrates the flow of goods, services, and income between households and firms. In its simplest form, households provide factors of production (labor, land, capital, and entrepreneurship) to firms in exchange for income (wages, rent, interest, and profit). Firms, in turn, produce goods and services that households purchase using their income.

The model expands to include the government, financial institutions, and the foreign sector. **Injections** are additions to the economy and include:

* **Investment (I):** Spending by firms on capital goods.
* **Government spending (G):** Expenditure on public goods and services.
* **Exports (X):** Sale of goods and services to foreign markets.

**Leakages** are withdrawals from the economy and include:

* **Savings (S):** Income not spent on consumption.
* **Taxes (T):** Payments made to the government.
* **Imports (M):** Spending on foreign goods and services.

Injections and leakages affect the overall economic activity. If injections exceed leakages, there is an increase in national income, leading to economic growth. Conversely, if leakages exceed injections, there is a decrease in national income, leading to economic contraction.

**Question 2:**

**Q:** Discuss the limitations of using GDP as a measure of economic performance.  
**[8 Marks]**

Gross Domestic Product (GDP) is a widely used indicator of economic performance, representing the total value of goods and services produced in a country. However, it has several limitations:

1. **Exclusion of Non-Market Activities:** GDP does not account for unpaid work, such as volunteer work or household labor, which contribute to societal well-being.
2. **Income Distribution:** GDP measures overall economic output but does not indicate how income is distributed among the population. A high GDP could mask significant income inequality.
3. **Environmental Impact:** GDP does not consider the environmental costs of economic activities, such as pollution and resource depletion. High GDP growth could be achieved at the expense of long-term environmental sustainability.
4. **Quality of Life:** GDP does not measure non-economic factors that affect quality of life, such as health, education, and life expectancy. Countries with similar GDPs may have vastly different living standards.
5. **Informal Economy:** GDP does not capture the size of the informal economy, which can be substantial in some countries. This can lead to underestimating the actual economic activity.

Despite these limitations, GDP remains a critical indicator of economic health, but it should be supplemented with other measures to provide a more comprehensive picture of a country’s well-being.

**Question 3:**

**Q:** Explain the differences between Nominal GDP and Real GDP. Why is Real GDP considered a better measure of economic performance?  
**[6 Marks]**

Nominal GDP is the total value of all final goods and services produced in an economy, measured at current prices without adjusting for inflation. Real GDP, on the other hand, is adjusted for inflation and reflects the true value of goods and services at constant prices.

**Differences:**

* **Nominal GDP**: Calculated using current market prices, it may overstate or understate economic performance during periods of inflation or deflation.
* **Real GDP**: Adjusts for changes in the price level, providing a more accurate reflection of an economy's output over time.

**Real GDP** is considered a better measure of economic performance because it accounts for inflation, enabling comparisons of economic output across different time periods. This allows economists and policymakers to assess whether the economy is genuinely growing, rather than just experiencing price increases.

**Question 4:**

**Q:** Define Green GDP and explain its importance in evaluating a country’s economic performance.  
**[4 Marks]**

Green GDP is an adjusted measure of GDP that accounts for environmental degradation and depletion of natural resources resulting from economic activities. Traditional GDP measures only the total value of goods and services produced, ignoring the environmental costs of production.

**Importance:** Green GDP is important because it provides a more holistic view of a country’s economic performance by reflecting the true cost of economic activities. It encourages sustainable practices by highlighting the negative impact of environmental damage on economic growth. Countries adopting Green GDP can better balance economic development with environmental preservation, leading to more sustainable long-term growth.

**Question 5:**

**Q:** Analyze the significance of the Lorenz Curve and Gini Coefficient in assessing income inequality.  
**[6 Marks]**

The Lorenz Curve is a graphical representation of income distribution within a population. It plots the cumulative percentage of total income earned against the cumulative percentage of the population. The closer the curve is to the line of equality (a 45-degree line), the more equal the income distribution.

The Gini Coefficient is a numerical measure derived from the Lorenz Curve, ranging from 0 (perfect equality) to 1 (perfect inequality). It quantifies the degree of income inequality in a population.

**Significance:**

* The **Lorenz Curve** visually shows how income is distributed, making it easy to compare inequality across different countries or time periods.
* The **Gini Coefficient** provides a single number that summarizes income inequality, which is useful for policy-making and economic analysis.

Both tools are significant in understanding the social and economic structure of a country, as high income inequality can lead to social unrest and hinder economic development.