

# Concepts of NIA

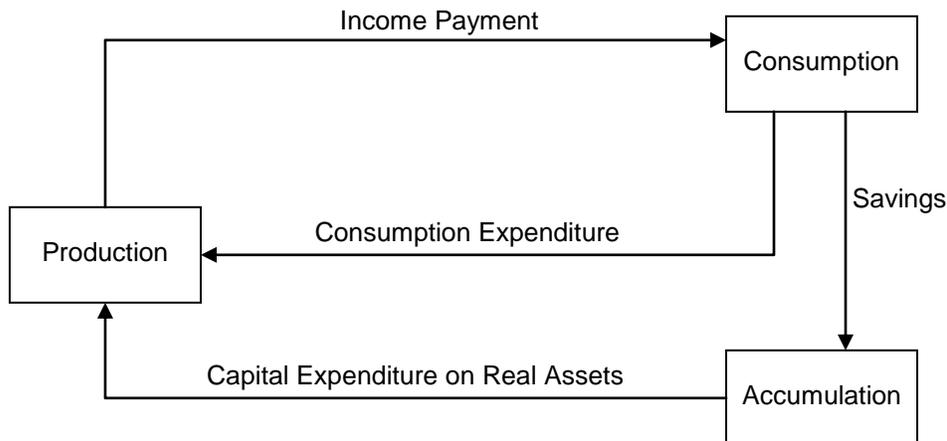
## Closed and Open Economy:

**Closed Economy:** A closed economy is the economy in which there is no economic dealings and social interaction with outside the world. A closed economy is said to be a self-sustained, self-contained, self-sufficient and 100% sovereign economy. A closed economy is a hypothetical economy. In the real world, it is impossible for a country, even for a socialist or communist country, to not interact with its fellow countries. The existence of a closed economy is only assumed for economic study.

The closed economy is consist of three activities:

- (a) Production activities,
- (b) Consumption, and
- (c) Accumulation or capital transactions.

The flow diagram of a closed economy is as follows:



**Figure 1** – Closed economy

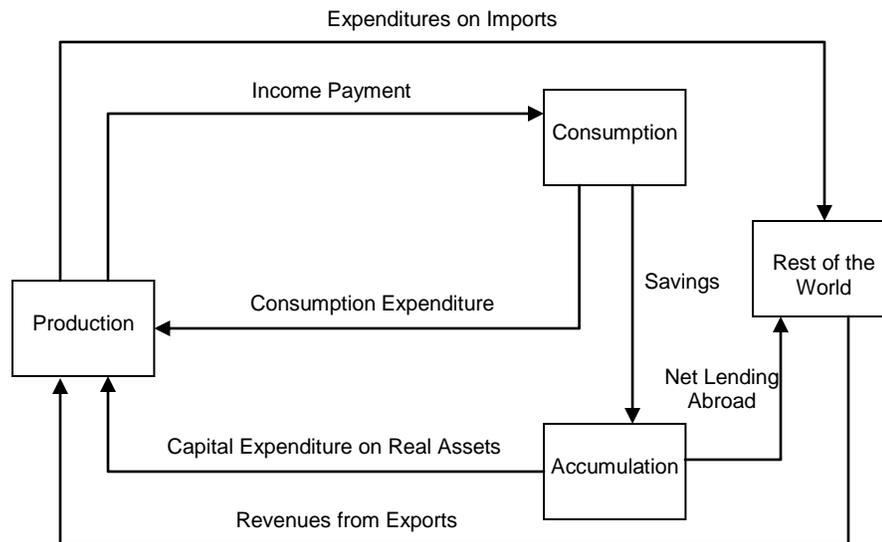
**Open Economy:** Open economy is an economy having economic and social dealings with other countries of the world. In the real world, all the economies are entered into extensive economic relationship with other economic systems. No country in this world is 100% self-sufficient, self-contained and sovereign. Every economy to a certain degree is dependent on other economy, esp., in the 21<sup>st</sup> century's global village.

The activities of an open economy can be divided into:

- (a) Production activities,
- (b) Consumption,
- (c) Accumulation or capital transactions, and

(d) Interaction with 'rest of the world'.

The flow diagram of an open economy is as follows:



**Figure 2 – Open economy**

**Stock and Flow Distinction:**

There are two kinds of quantities:

- (a) Stock, and
- (b) Flow.

A stock is any quantity that is measured at a single instant in time. A flow is any quantity that must be measured over a period of time. For example, the amount of orange juice a person drinks in a month is a 'flow'. The amount of orange juice he has in his refrigerator is a 'stock'. The number of sheets of  $\frac{3}{4}$  inch plywood in the warehouse is a stock. The number it sells in a typical week is a flow.

Income is a flow, whether for an individual, or will all the individuals added up to get national income. everything that is done with income is flow, for example, paying taxes, saving, consumption, etc.

The amount of money in existence is a stock quantity, not a flow quantity. When we talk about saving, we mean new saving during a given period, not the total stock of a household's wealth. Therefore, saving is flow and wealth is stock.