

PETEL Paragraphs

[Explain why the economy will tend toward equilibrium.](#)

Words/phrases that could be included: Income, expansion, contraction, injections, leakages, $I+G+X=S+T+M$, automatic stabilisers

P oint	Through the impacts of automatic stabilisers, the Economy will naturally tend toward an equilibrium position, $I+G+X=S+T+M$.
E xplanation	In an expansionary phase of the Business Cycle, injections are greater than leakages, $I+G+X > S+T+M$. This means that output and thus income are both increasing. With increasing income, the economy will see an increase in leakages such as T, S and M's. As households have a greater ability to save and spend on imports as well as having to pay more tax. The fall in Unemployment associated with the expansion will also decrease injections such as G.
T heory (May be a graph also)	Keynes' Circular flow of income theory states that this increase in leakages and decrease in injections will act to slow down the economy's growth, causing $S+T+M$ to all increase until the point at which the economy reaches its new equilibrium point and $I+G+X=S+T+M$ again.
E vidence (Example, quote, statistic to prove)	During the first phase of the mining boom, the Australian economy experienced an increase in income associated with the increase injections such as exports and Investment. As a result, T increased and G fell, causing a budget surplus as $T > G$. This worked to slow down the growth in the economy and move it toward equilibrium.
L ink	Without any change in policy by the Government, automatic stabilisers work to bring the economy back into equilibrium.