

Economic crisis from another perspective

—Explore the economic crisis from the view of money flow

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Abstract:

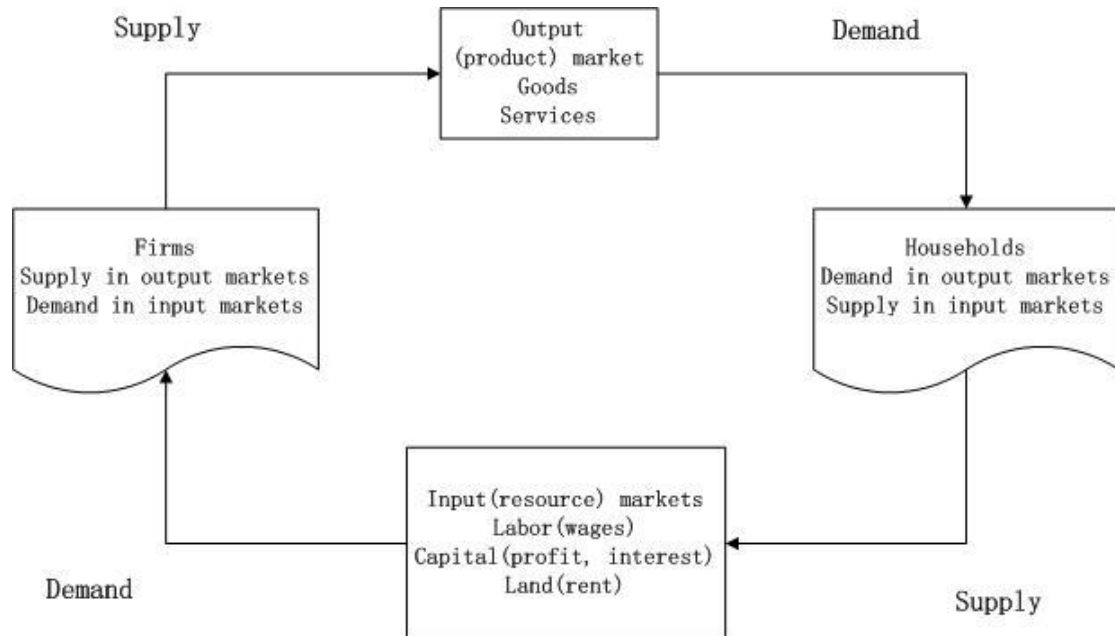
In this paper, I will mainly discuss about the economic crisis from another view, the view from flow of money.

Key word: Money flow, economic crisis

1. Background

In general economic science, the discussion between the supply and demand should be like following:

Figure 1. Market overview graph[1]



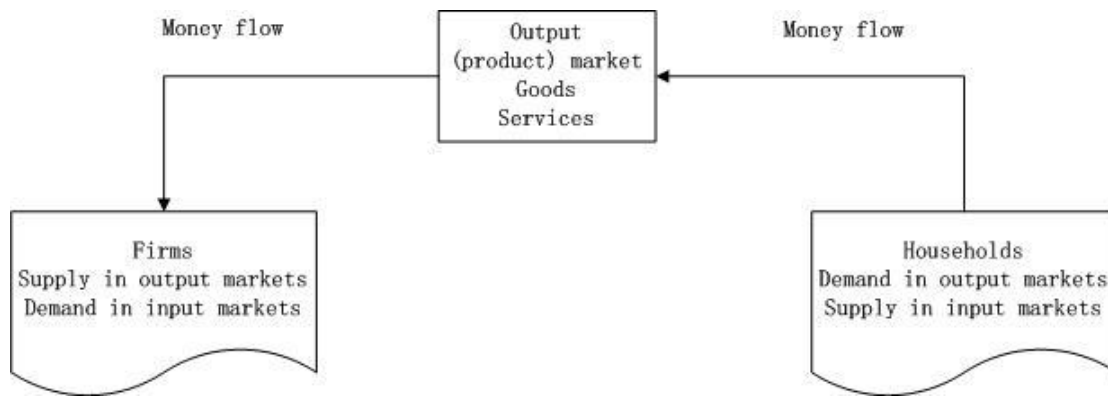
From the graph, it is easy to know that the firms is the supply in the product market and demand in the labor market, households are the supply in the labor market and demand in the product market.

2. The analysis toward money flow inside the supply and demand

We can focus the movement of money here:

When households buy goods and services from the product market, households pay money and firms earn money. So the money flows from households to firms, just like the following picture:

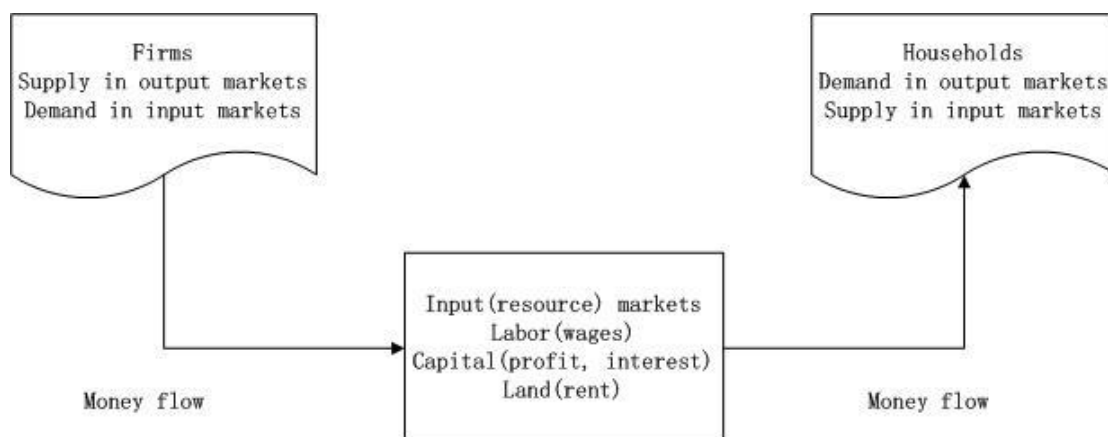
Figure 2. Money flow part 1



When firms buy labor from the labor market, they will pay salary to the households. Besides, they will buy capital, rent, a lot of things, but all of them are made from households, so finally money will flow from firms to households.

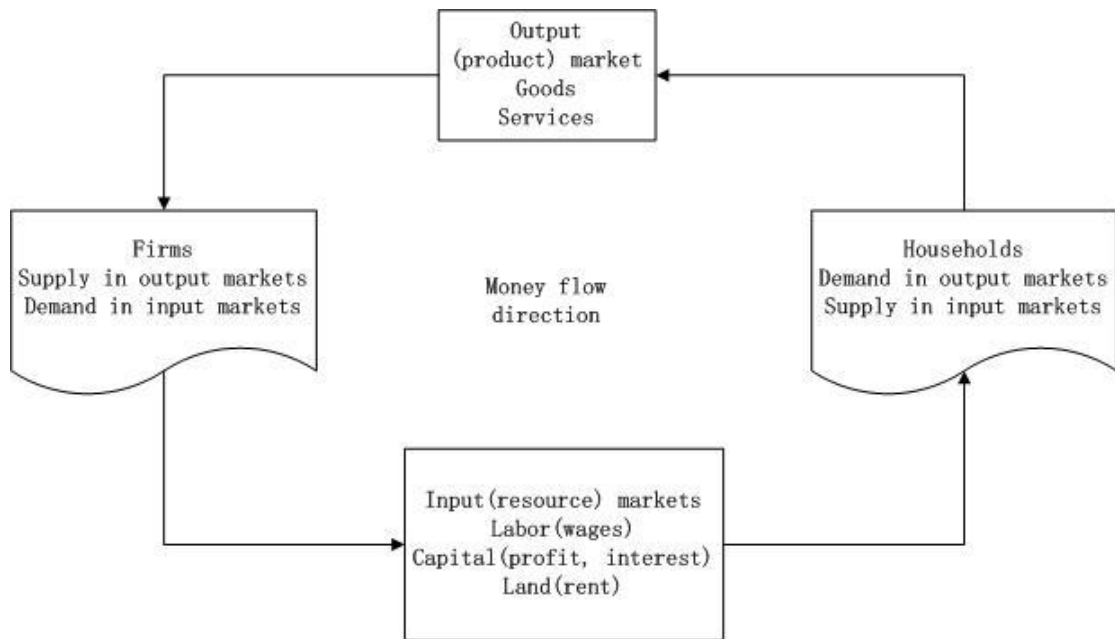
We will have another part of money like following:

Figure 3. Money flow part 2



So we can refer that the money is flowing inside in the market, the money is flowing between demand and supply. We can have the whole graph like following:

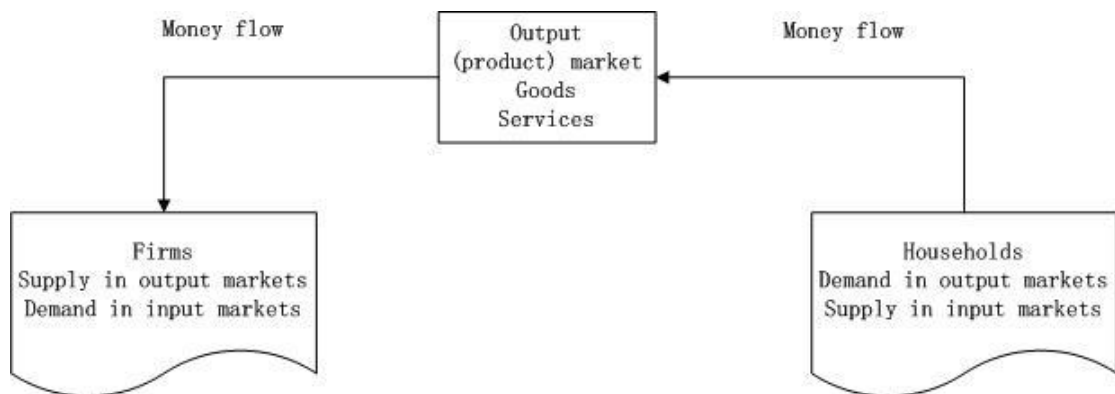
Figure 4. The direction of money flow



3. The essence of economic crisis

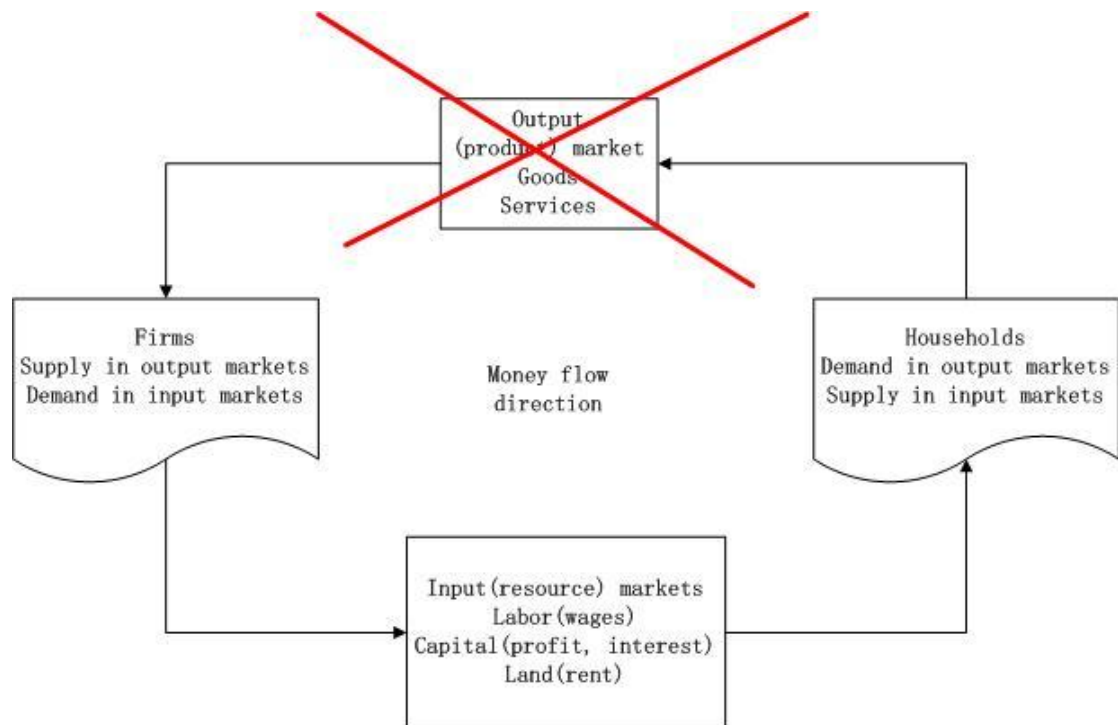
In general theory, the factor that cause the economic crisis is short of demand. From the graph, we could know that it happens at upper part of the flow. Because the demand is not enough, there is not enough money flow from households to firms.

Figure 5. The direction of money flow



So in fact, economic crisis is the interruption of the money flow inside the circulation, or we can say, when the circulation of money flow between supply and demand is interrupted, there will be an economic crisis.

Figure 5. The direction of money flow



Citations:

[1] Intermediate microeconomics PPT, Wenxin Liu