

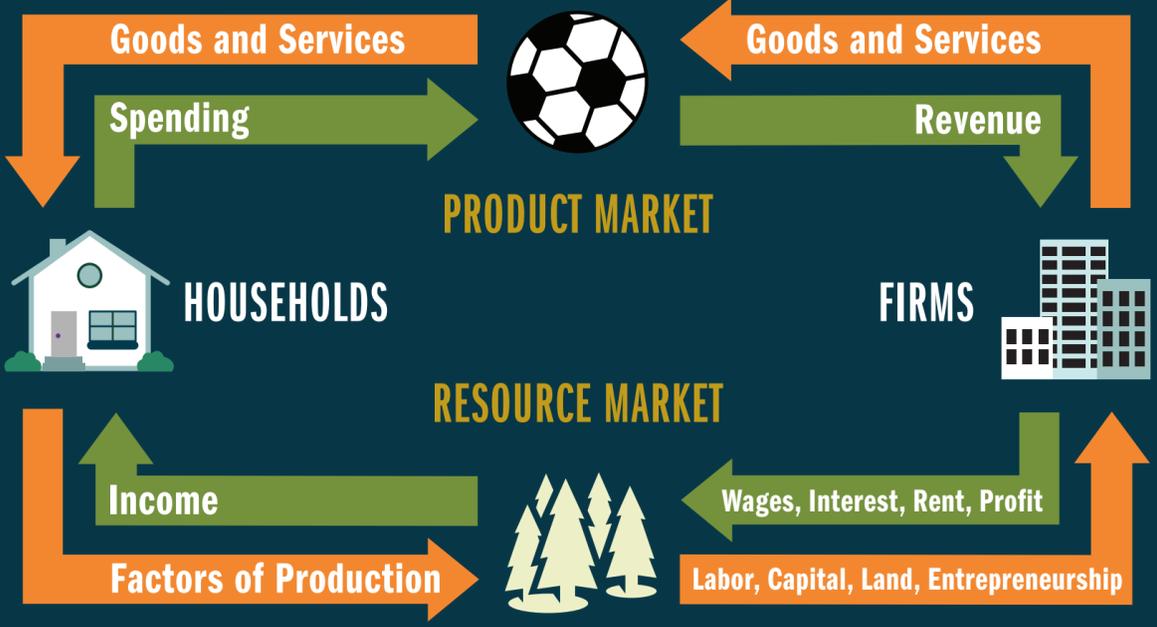
Circular Flow

What roles do households, firms, and government play in markets?

MICROECONOMICS

The Circular Flow Model

In the **PRODUCT MARKET**, firms are the sellers (supply) and households are the buyers (demand).



In the **RESOURCE MARKET**, households are the sellers (supply) and firms are the buyers (demand).

Resource Market

Factors of Production

Land
Land includes all production inputs provided by nature (natural resources).

Labor
Labor is the work of employees possessing human capital.

Capital
Capital includes all human-made goods used in the production of other goods and services.

Entrepreneurship
Entrepreneurs take risks and organize the factors of production to start a business.

Product Market

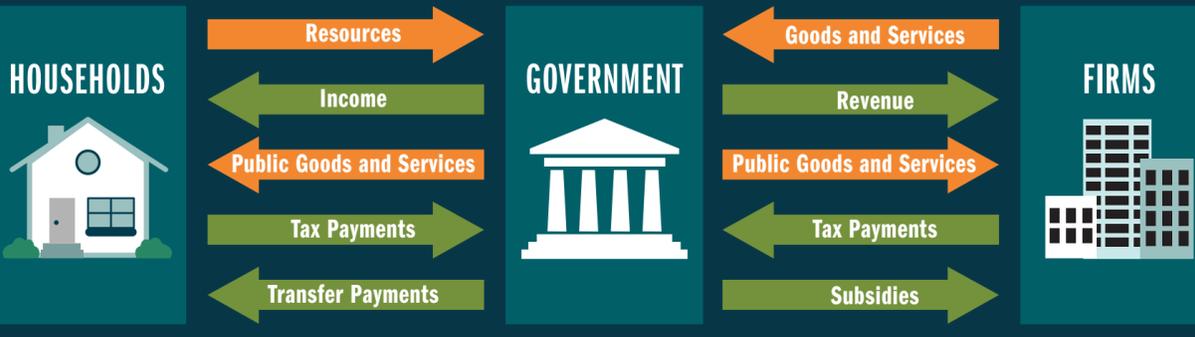
Goods and Services

Goods
Goods are items we buy that are tangible. Soccer balls and cell phones are tangibles.

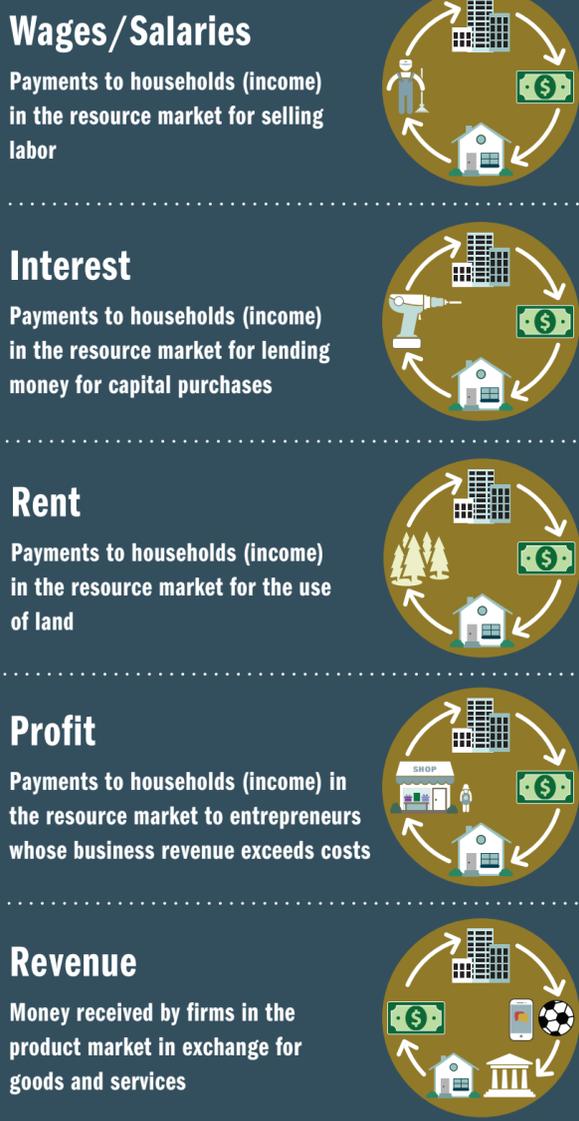
Services
Services are intangible and usually involve paying a firm to do something for you. Attending a soccer match and having cell phone service are intangibles.

Government in the Circular Flow

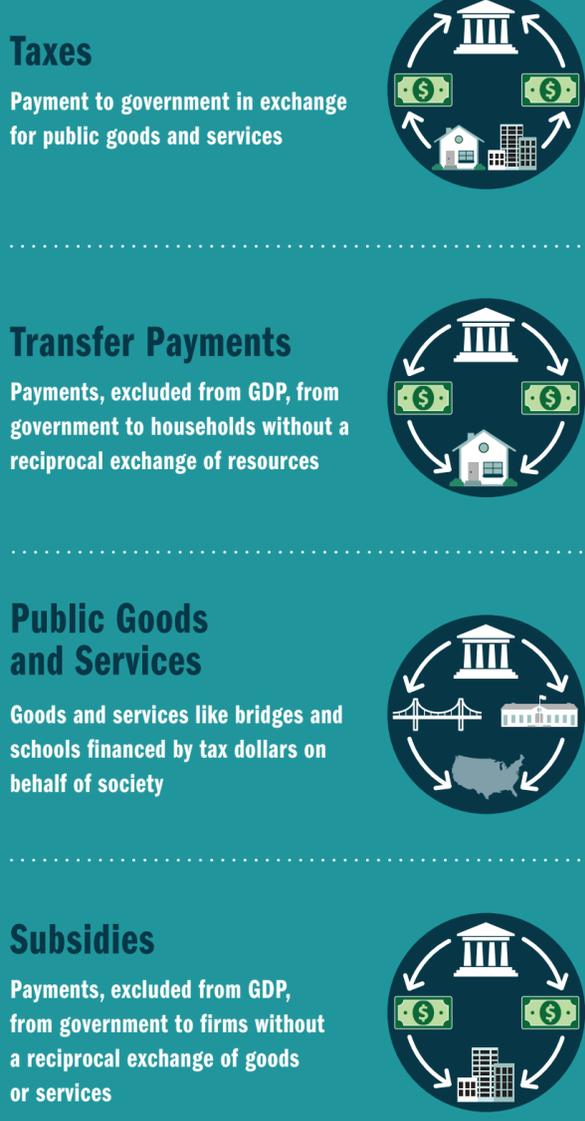
In a three-sector circular flow diagram, government is a buyer (demand) in both the product and resource markets. Government provides public goods, public services, and transfer payments to households and firms in exchange for tax payments.



Money Flows



Flows to and from Government



Measuring the Economy Using the Circular Flow

