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

**MICROECONOMICS**

**Circular Flow**

**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).

**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**
- **Wages/Salaries**
  Payments to households (demand) in the resource market for selling labor
- **Interest**
  Payments to households (demand) in the resource market for lending money for capital purchases
- **Rent**
  Payments to households (demand) in the resource market for the use of land
- **Profit**
  Payments to households (demand) in the resource market for entrepreneurship
- **Taxes**
  Payments to government in exchange for public goods and services
- **Transfer Payments**
  Payments, exclusive of social security, from government to households, without a reciprocal exchange of resources
- **Public Goods and Services**
  Goods and services provided to a broader audience (not exclusive to the household)
- **Subsidies**
  Payments, exclusive of BP, from government to firms without a reciprocal exchange of goods or services

**Measuring the Economy Using the Circular Flow**

**Gross Domestic Product (GDP)**

\[ GDP = C + I + G + NX \]

**National Income Accounting**

\[ Y = W + I + R + P \]

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