

# **The Circular Flow Model**

How Things Work in a  
Mixed-Market Economic System

In our economic system there are two sectors  
the business sector and the household sector



# Households



- Demand consumer goods, like: cars, computers, washers, lawnmowers, etc.
- Households provide labor resources to business and own most of the resources of production

# Businesses

- Produce and supply goods and services
- Businesses demand resources for production: land, labor, capital, and entrepreneurs



These two sectors interact in two markets:  
the Product Market and the Factor Market



# Product Markets

- are the markets where households acquire finished (consumer) goods & services.
- The markets we are most familiar with are retail markets.
- Examples include: Wal-Mart, gas stations, Burger King, Best Buy, the dentist.

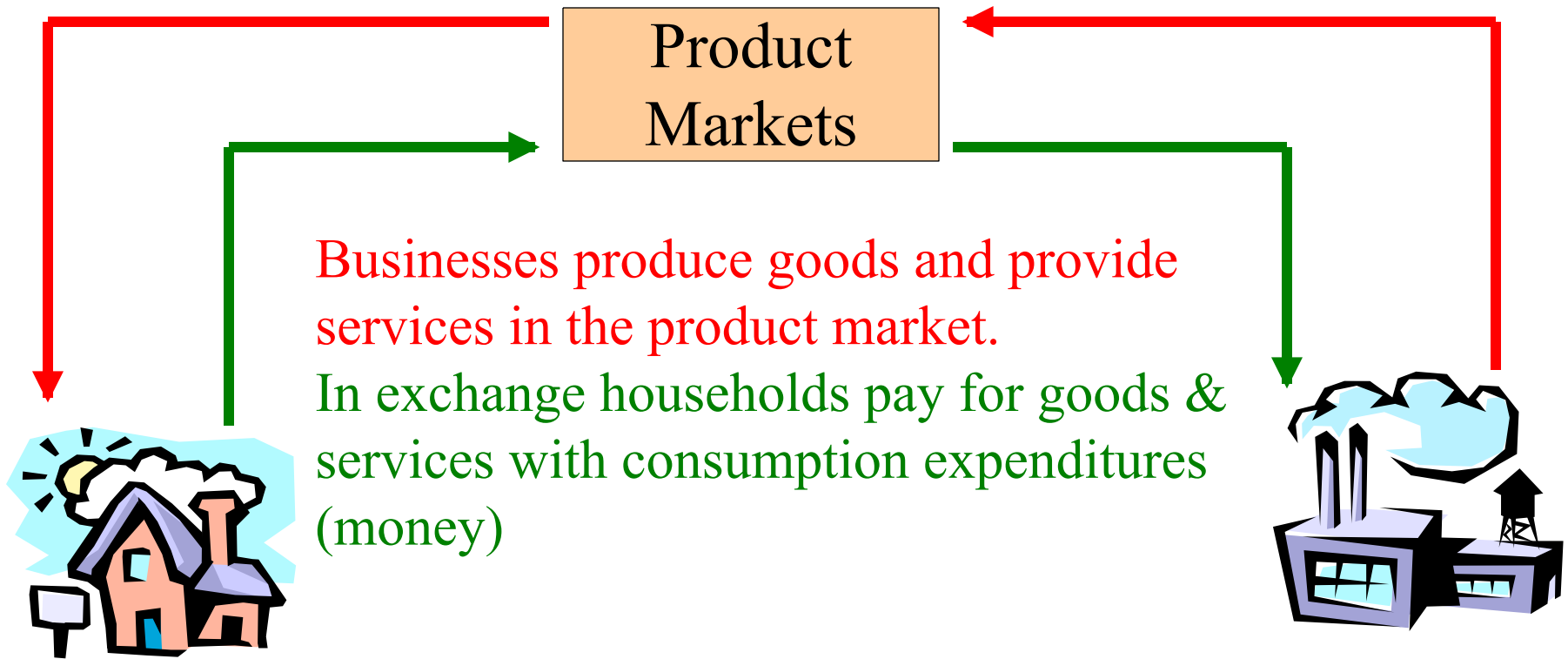
# Product Markets



# Factor Markets

- are the markets where business acquire the factors of production (land, labor, capital..)
- When you are looking for a job you are in the factor (labor) market.
- Examples include: Cowan Equipment, IBM Business Solutions, Snelling Personnel





Factor Markets

# Product Markets

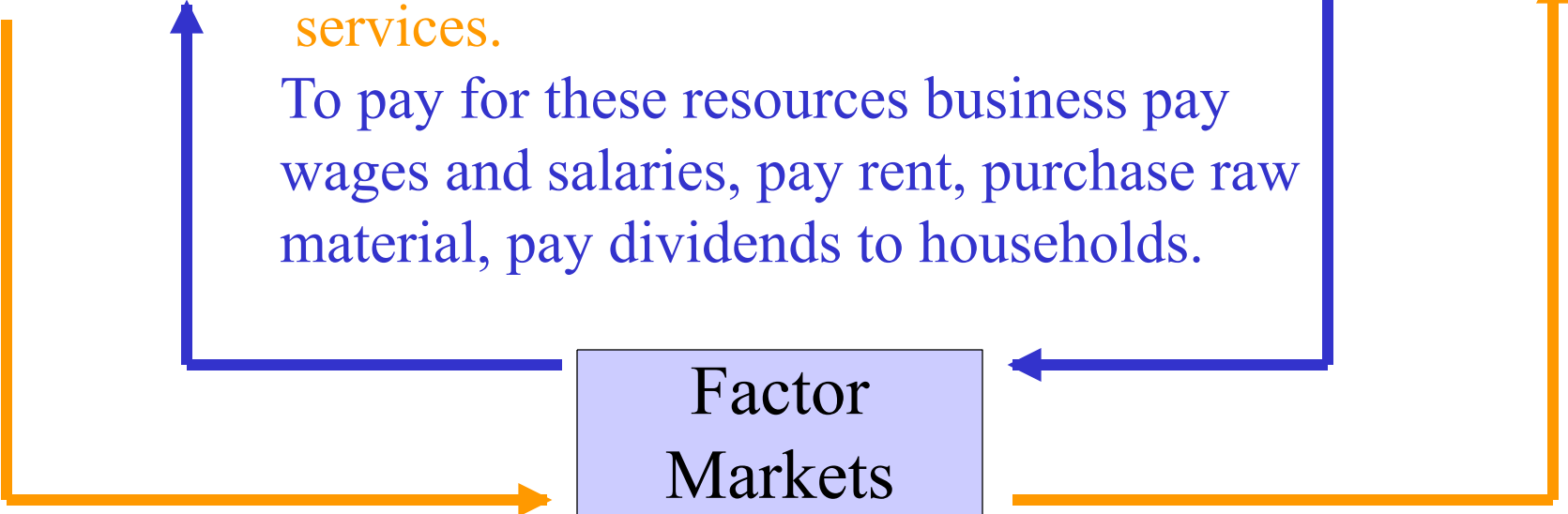


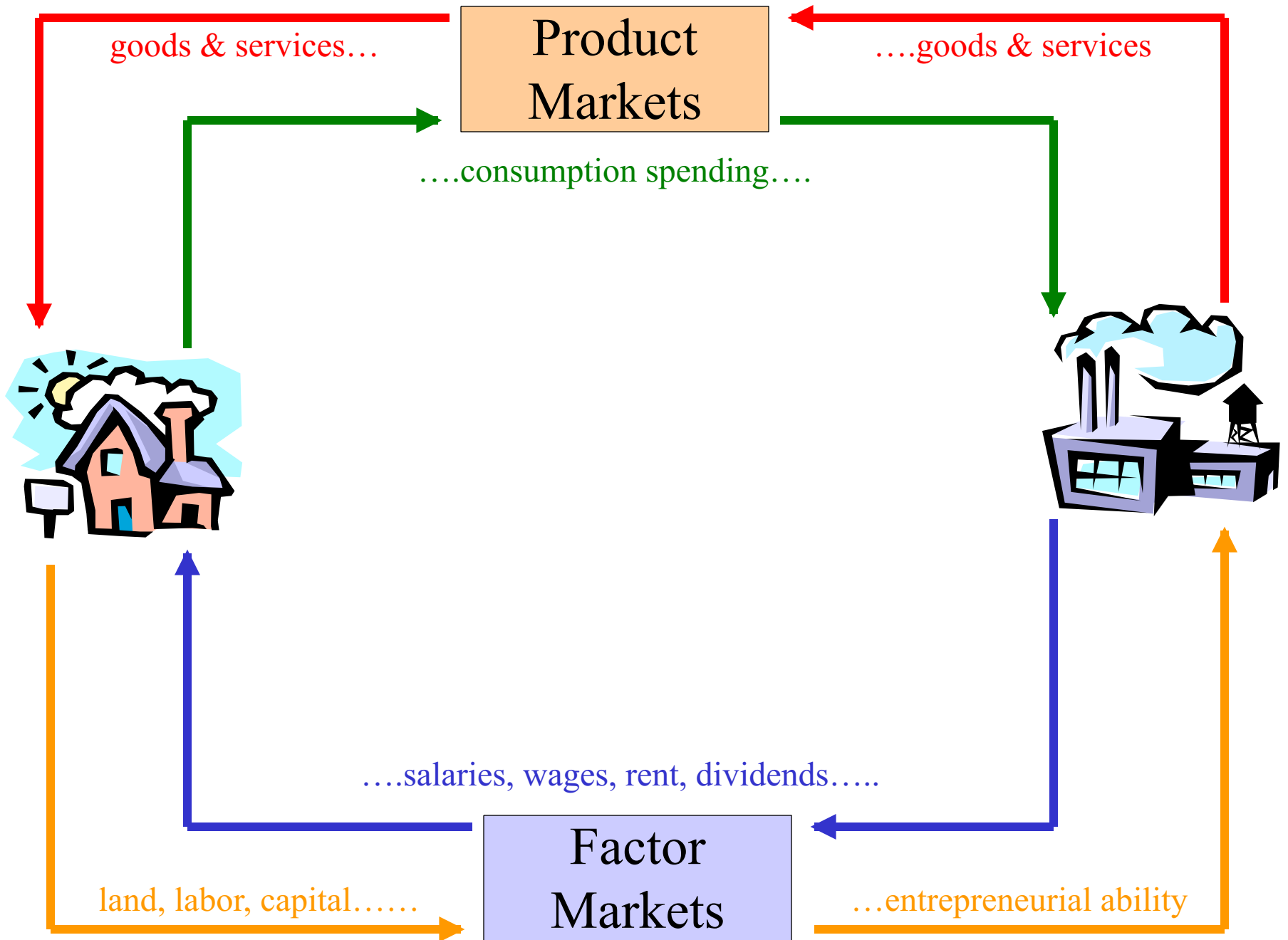
Households provide labor, own land, invest in capital and have the talent businesses need to produce goods and services.

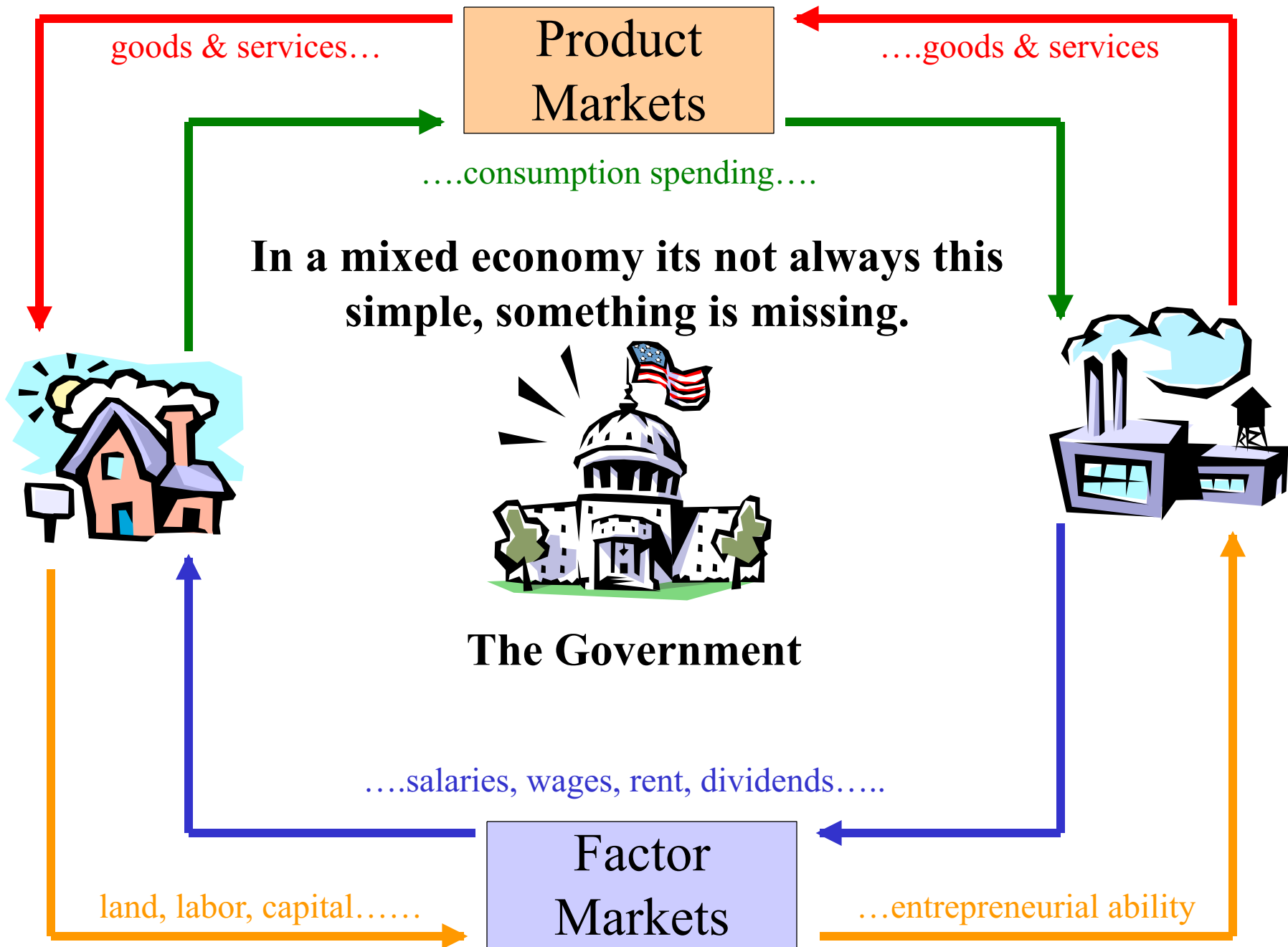
To pay for these resources business pay wages and salaries, pay rent, purchase raw material, pay dividends to households.



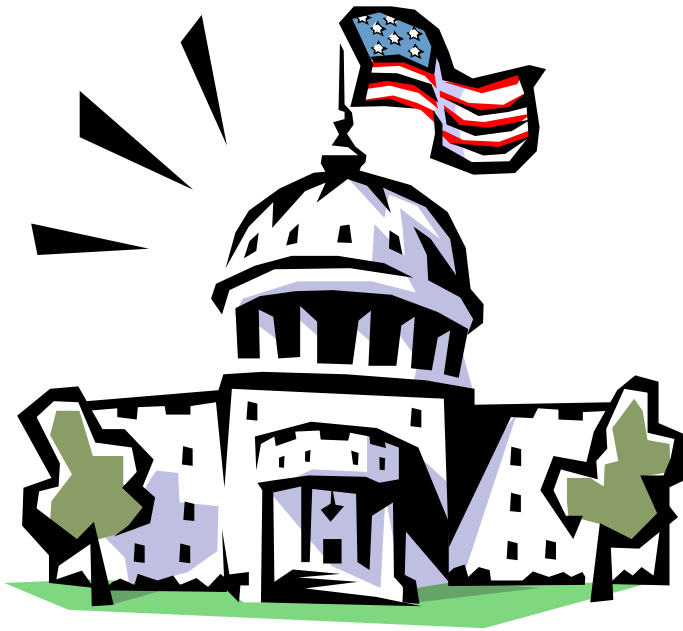
# Factor Markets



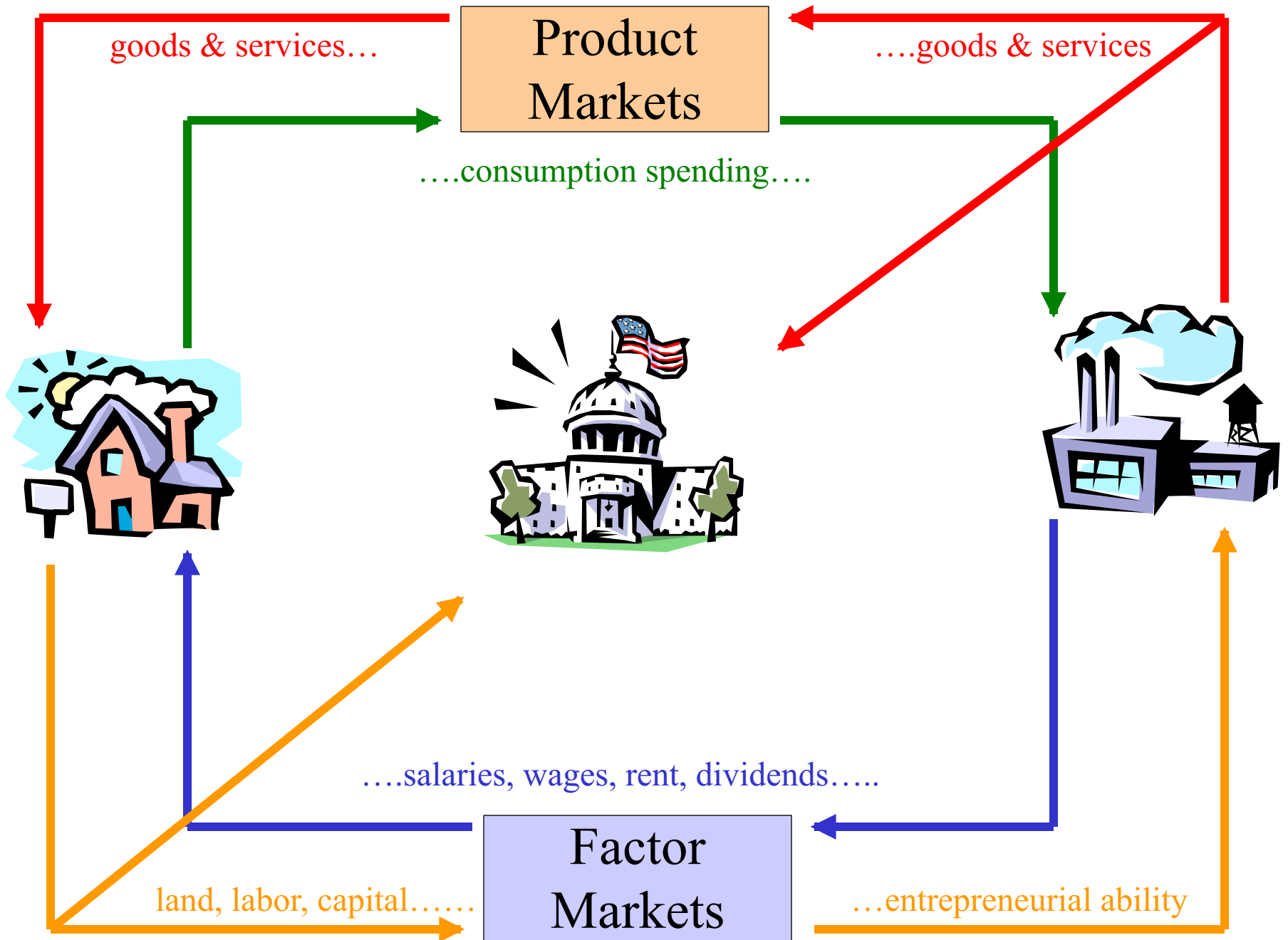


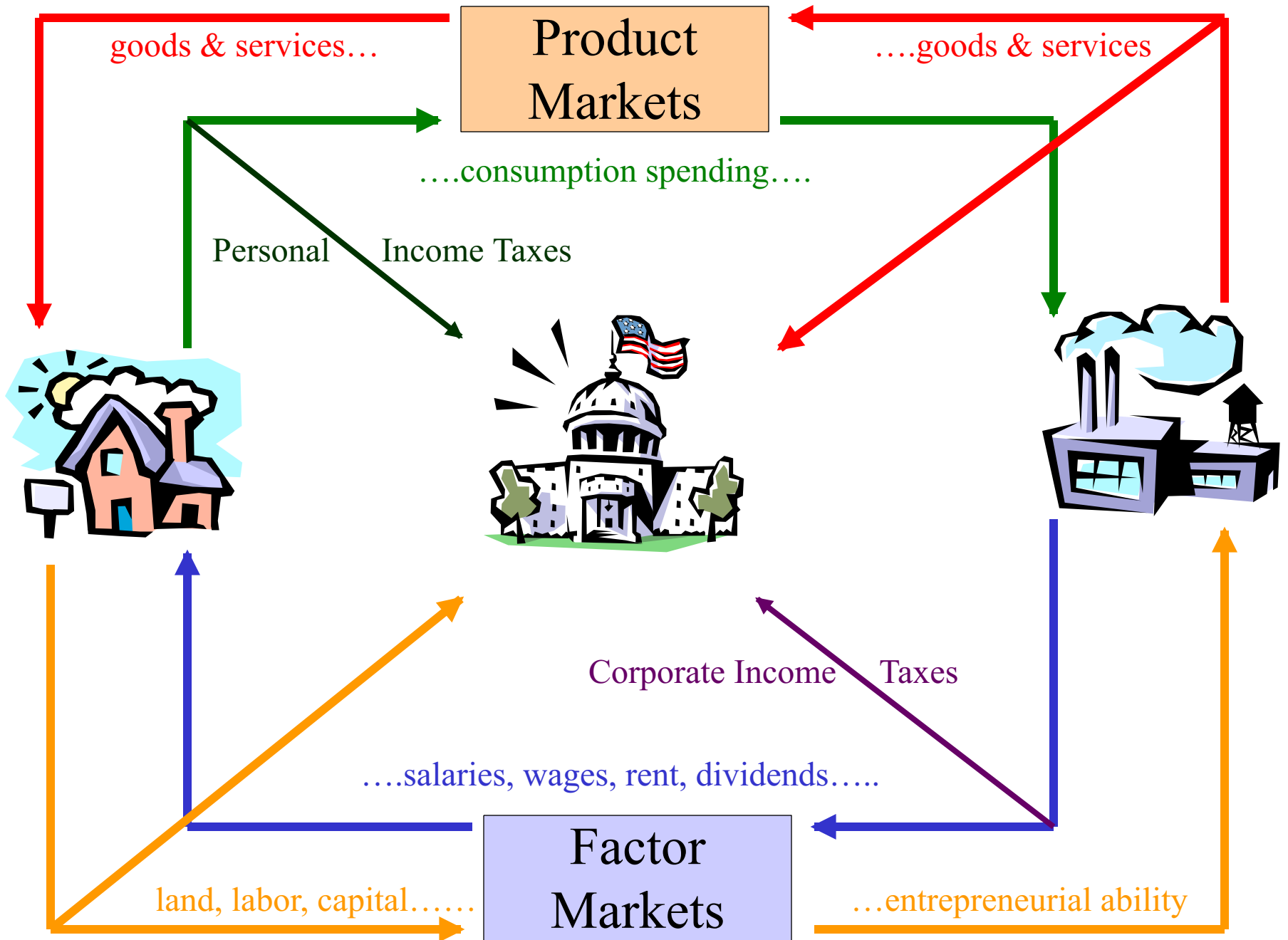


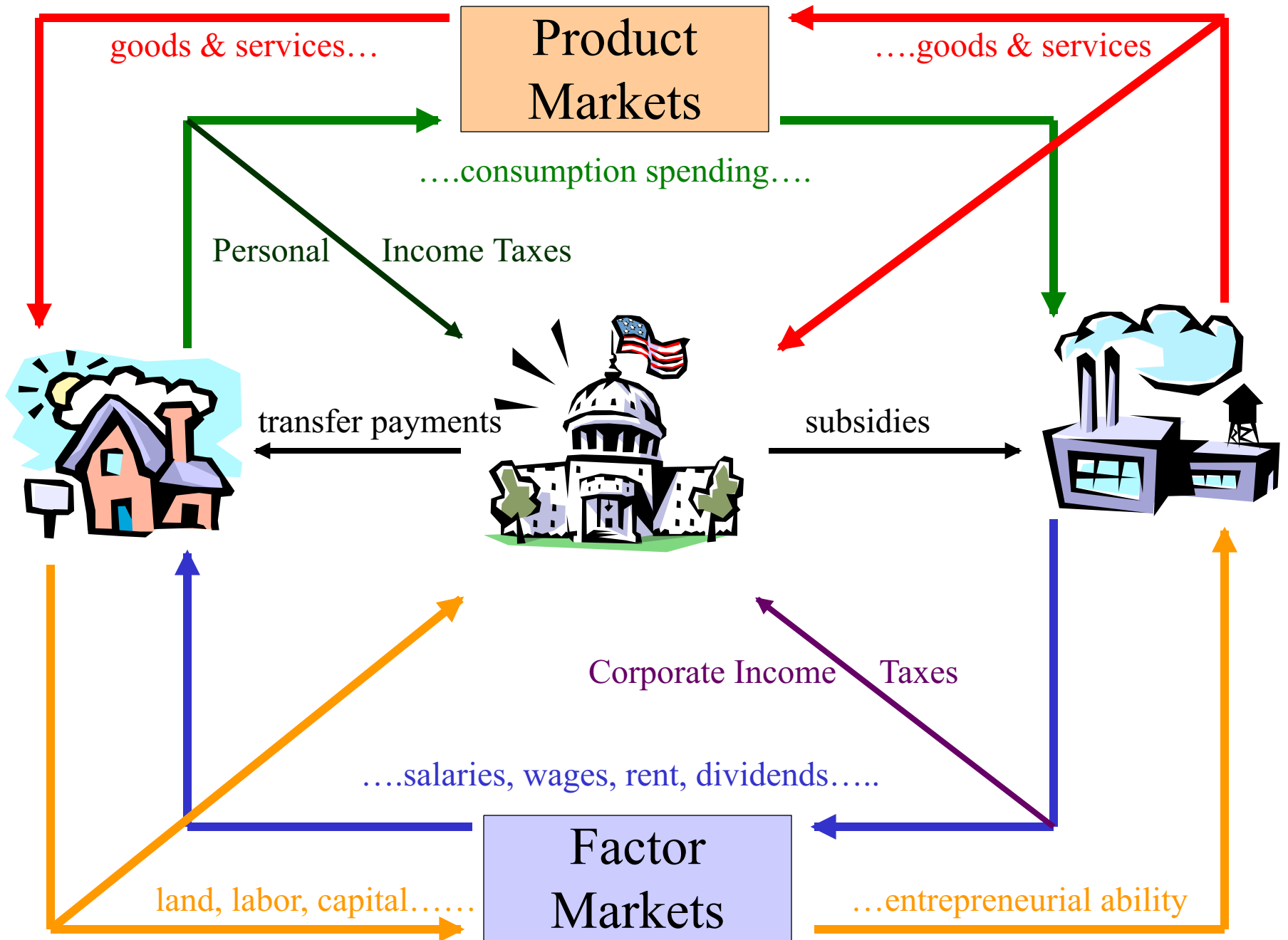
# Governments



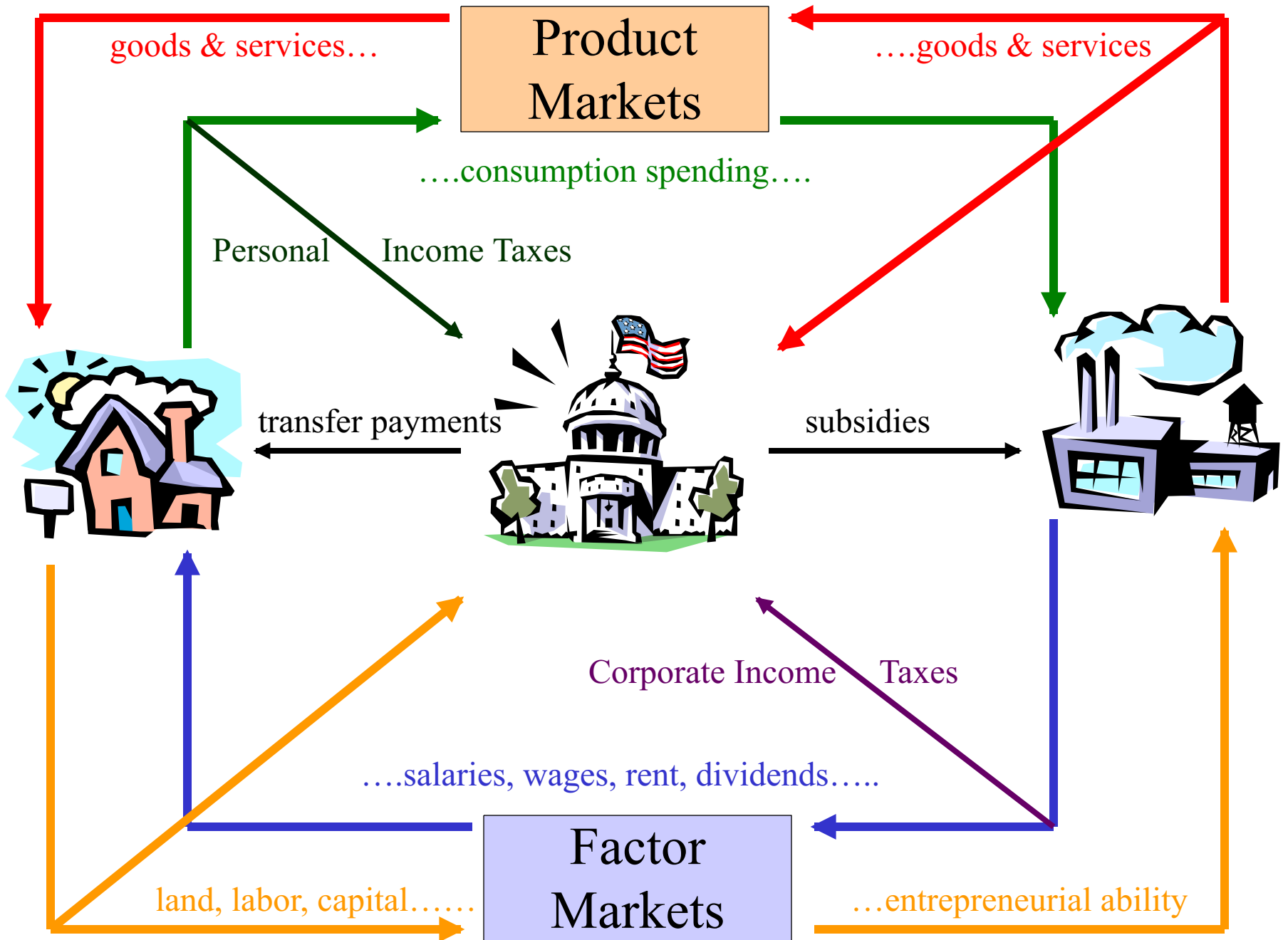
- Federal, State, & Local
- Governments require resources to provide services
- To purchase these resources governments collect taxes
- Government spending makes up 20% of GDP











**Any Questions?**

Are you sure???