

Circular Flow Model practice questions worksheet

1. Draw a Circular Flow Model and label it correctly:

2. In the resource market:

a. What is the role of firms?

b. What is the role of households?

3. In the product market:

a. What is the role of firms?

b. What is the role of households?

4. Give three examples of resource markets:

1.

2.

3.

5. Give three examples of product markets:

1.

2.

3.

6. What determines the amount of income a household will earn in the resource market? Why do some households earn higher incomes than others?

7. What determines the amount of money a firm will earn in the product market? Why do some firms earn so much more money than others in a market economy?

8. What is the goal of a household in a market economy? Based on this simple goal, what is the best way for a household to achieve it?

9. What is the goal of a firm in a market economy? How can a firm best achieve this goal?

10. What makes the exchanges that take place in a market economy “mutually beneficial”?

11. What role does money play in the circular flow model?

12. What role do prices play in the circular flow model?

13. What role or roles do you think the government should play in a free market economy?

14. What role do you think banks should play in a free market economy?

15. What would happen to the circular flow of a nation’s economy if the nation opened up to free, international trade with the rest of the world?