The Circular Flow

Households and businesses trade resources for money, and money for goods, in a loop.

Name: _____ Date: _____

OBJECTIVE

Explain, using a circular flow diagram, how goods, services, resources, and money move between households and businesses through the product market and the resource (factor) market.

1. Two markets, two directions

Market	What households provide	What businesses provide
Factor (resource) market	Labor, land, capital	Wages, rent, profit
Product market	Money (spending)	Goods and services

2. Draw the loop

Sketch two boxes, HOUSEHOLDS and BUSINESSES, with four labeled arrows: labor flowing to businesses, wages flowing to households, spending flowing to businesses, and goods/services flowing to households.

3. Trace a real paycheck

Maya works at a coffee shop and spends her paycheck at a bookstore. For each step, name which market it belongs to (factor or product).

Step	Factor or product market?
Maya works a shift at the coffee shop	
The coffee shop pays Maya wages	
Maya buys a book with her wages	

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Step	Factor or product market?
The bookstore uses that money to pay its own employees	

4. Where do TAXES fit into the circular flow? Which direction do they flow, and who receives them?