

Circular flow

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What is the circular flow model?

- In its simplest version, the circular flow model illustrates a closed economy, meaning it has no links with other countries and no government.

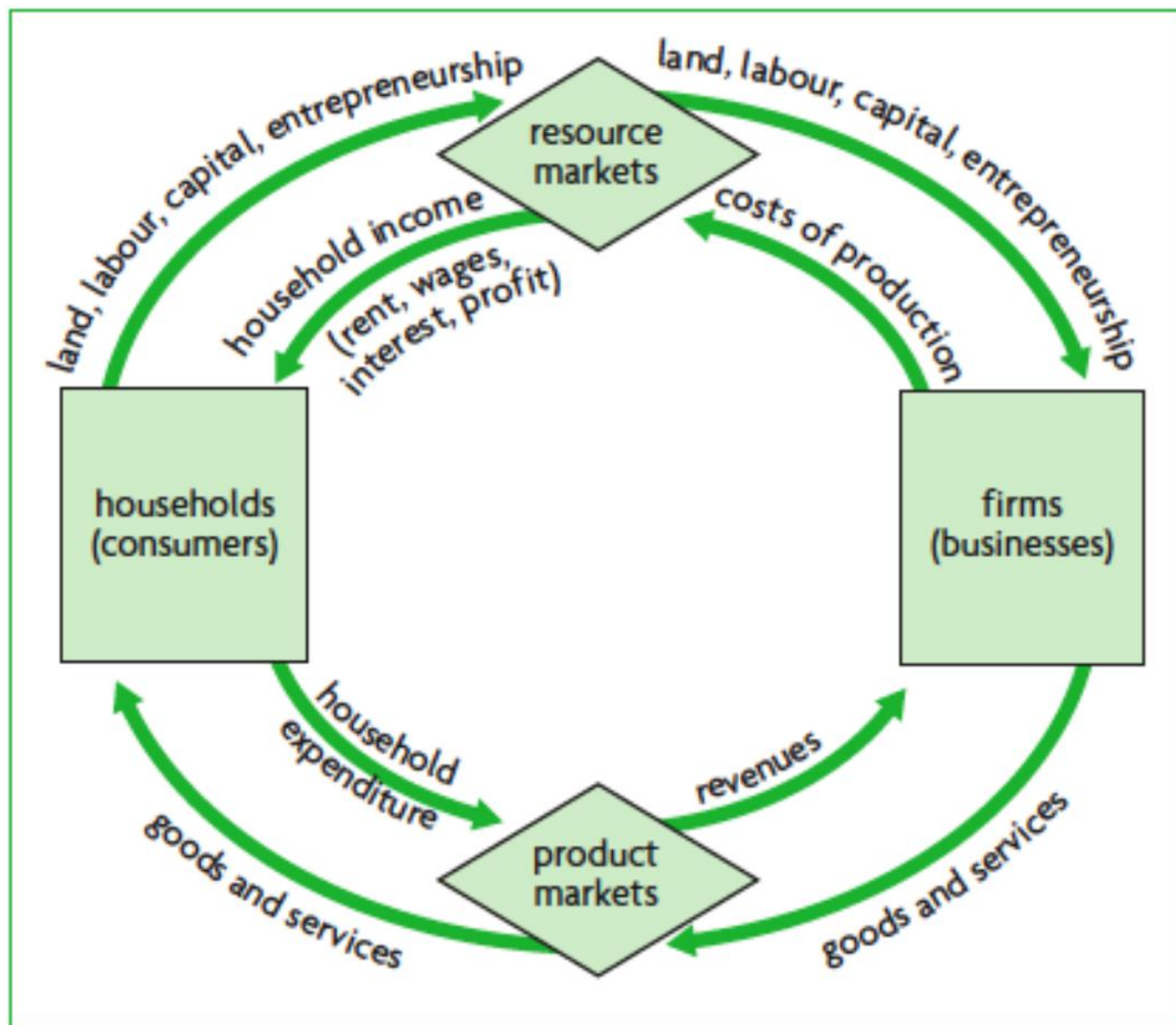


Figure 8.1 Circular flow of income model in a closed economy with no government

What are markets?

What are markets?

- Any place or situation that brings together buyers and sellers of a product or service.

What are factor markets?

- Also known as resource markets.
- Any setting where factors of production are exchanged by owners (households) and buyers (firms).

What are product markets?

- Any setting where goods and services are exchanged by producers and consumers.

Circular flow of income

- Income flow
from firms to households
IS EQUAL TO
expenditure flow
from households to firms.

Activity 18

- Work alone or in groups to determine where each of the events belongs.

Activity 18

- How would the following events affect the circular flow?
 - All members of a large union go on strike.
 - A large automobile manufacturer goes out of business.
 - Many workers are worried about being laid off and spend less.
 - A war cuts off our supply of imported oil.

Activity 19

- Work alone or in groups.