

Circular Flow Lesson Plan

This lesson introduces the circular flow model to students by creating a model in the classroom and through video clips from Discovery Education streaming. Students draw their own maps to assess their understanding and illustrate their circular flow maps by using the Internet to find examples of the markets. Or, students may create their own new product and use it in examples of the markets.

Essential Question

Why are there goods for sale in the store?

Guiding sub-questions

1. How does the circular flow model illustrate the flow of money in the economy?
2. What exchanges are made in the circular flow model between households, businesses, and government?
3. What are specific examples of each market and actor?
4. How does each actor stimulate the economy?

Assessment Plan

Students will be able to draw their own maps of the flow of money and resources from households, businesses, and government to the product and factor markets with specific examples of each.

Alternatives

Students will scavenge the Internet to find examples of each actor and market to illustrate their maps. The Internet will aid them in finding information to determine whether the examples actually do illustrate the markets and actors. If running out of time after doing the research or if Internet access is limited, students could use old magazines to illustrate their maps.

Students may choose to create their own products (useful to also demonstrate the entrepreneur role and to illustrate the four factors of production) and then explain where they would get the materials necessary for the production of their products and who would buy them.

Classroom Preparation

Planning Consideration

This lesson is set up to serve as a transition into supply and demand as well as a reference point when you begin macroeconomics. For teaching procedure 5, arrange the desks in the classroom to re-create a map of the circular flow model. You will group students' desks in areas with signs representing each actor and market. Teaching procedure 8 should be assigned as homework.

For teaching procedure 8, students will need computer and Internet access. This can be done individually or in pairs. Teachers will need Internet access and Inspiration.

Preparation for Students

Students should understand the basic vocabulary of forms of exchange, producers, businesses, consumers, government, businesses, goods, and services as well as have a basic understanding of the four factors of production. This lesson will build on this understanding. **Caution: Students will probably think of capital resources as money and of money as a resource—be on the lookout and correct this misconception.** This lesson will also serve as a springboard for supply and demand.

Unit Resources

- Powerpoint of [circular flow](#): This is a PowerPoint that illustrates the exchanges in the circular flow model. The terminology is geared for a regular econ class as it uses money, not income or revenue. For an advanced class, be sure to use the appropriate terminology: income, wages, salaries; revenues, profits, money for spending.
- Discovery Education streaming (Georgia teachers use [PeachStar](#)): Log in first, then click on the links in the teaching procedures to go directly to the video clips. After the clip finishes, the video streaming will stop. If you are in a trailer or have issues with Internet connectivity, download the clip beforehand to ensure problem-free display. Consult your media specialist for your school's user name and password. For special needs students, you can download the text of the video and copy as needed.

Teachers outside of Georgia should contact their school's Discovery Education coordinator to get their passcode in order to log in to united streaming and access the videos.

- Software: Inspiration, PowerPoint, and an Internet browser
- The tutor2u [website](#) provides additional content explanations with additional models.

Teaching Procedures

#1

Ask students why we have goods on our shelves in the stores. Who provides the goods? Briefly give them time to discuss with a partner or group before answering (less than one minute to discuss and then approximately 30 seconds to share; whip technique and think, pair, share—M. Harmin, *Strategies for Active Learning*). If you have more time, have students write their responses first, then pair and share.

Discuss their responses briefly. To summarize, why are Coca-Colas for sale at stores?

#2

Remind students of the four factors of production and their meanings. Have students pair up or work in small groups and create examples of each factor of production using real-world situations (two minutes). Discuss a few from volunteers or call on selected students.

Example: For Coca-Cola: secret recipe, glass bottles, workers, machines, trucks, etc.

Remediation: Remind students of the four factors of production.

- Land physical resources
- Labor -human resources
- Capital resources, "tools," not money
- Entrepreneurs

Alternative 1

Log in to PeachStar. Have students view the PeachStar [video on resources](#). Either download or stream the clip “Three Types of Resources” (4:17) from the video “Economics: The Production, Distribution, and Consumption of Goods and Services: Resources” (16:24). If the link does not take you directly to the clip, do a keyword search in PeachStar for economic resources and the video will come up in the search results.

Alternative 2

Sing “We’ve Been Working on Production” from the KidsEcon Posters [website](#). Other topics are also illustrated through songs as well. This song does a good job of simplifying the factors of production and providing concise descriptions of each factor.

#3

Ask students how they get the money to purchase the Coca-Cola. “So, you supply your labor to ____, right?” Ask students how these factors are assembled into goods and services. How do they end up on the shelf at a store? Why are there goods for sale in the store? What does the business get from the sale of the good? What does the consumer get? How does the consumer get the money to buy products?

Introduce the idea that economists call these **exchanges**, illustrating the flow of money in our economy in the circular flow model. Show the slideshow “The Basics” from the slideshow library on the ThinkQuest [website](#) to conclude this procedure and prepare for the video clip that will illustrate the circular flow model to students.

#4 (optional, depending on level of class)

Consult your media specialist for your school’s user name and password for Discovery Education streaming.

Show students the clip “Flows in a Market Economy.”

Georgia teachers: Log in to [PeachStar](#), then go to the downloads page and either download or stream the clip “Flows in a Market Economy” (7:30) from the video “Economics: A Framework for Teaching the Basic Concepts: Microeconomic Concepts” (26:55). If the link does not take you directly to the clip, do a keyword search in PeachStar for **microeconomics** and the video will come up in the search results.

After the clip finishes, the video streaming will stop. If you are in a trailer or have issues with Internet connectivity, download the clip beforehand to ensure problem-free display. For special needs students, you can download the text of the video and copy as needed.

#5

At this time, ask for volunteers to be shoppers and hand them a placard that reads Households/Consumers. Ask who wants to run a store. Product Market sign: Who wants to be a CEO for Business/Headquarters? Who wants to run a factory: Factor/Resource Market? They sit at the front and back and two sides of the room with their placards. Make sure the signs are posted on the desks, indicating the groups represented in the classroom: consumers, businesses, factors of production markets (or resource markets), and product markets. Only illustrate businesses and households at this time—do NOT include government yet.

Then, use a dollar and demonstrate how money is exchanged in each market by each actor. If you would like to use pretend money, you may print dollars at the PBS Kids [website](#), or use Monopoly money.

Now, simulate each exchange. Beginning with consumers and product markets is usually easiest. Ask how consumers obtain Coca-Cola (legally). They go to the store. Next ask, do they get it for free? No, they exchange money for the Coca-Cola. Hand a dollar to the consumer volunteer.

Mention how the student got the dollar. Ask the consumer volunteer, where do you get the dollar, assuming it was not just given to you? (It helps if the consumer volunteer has a job). My job paid me. Why did you get paid? I worked. Then mention that the consumer wants to buy a product. Take the dollar from the consumer volunteer and hand it to the product market volunteer. Simulate giving the consumer volunteer a product or really do so if you wish.

Then, what does the store do? They must pay Coca-Cola headquarters for the Coca-Cola that they purchased. So take the dollar from the store owner and fold it to illustrate that the store owner keeps some of it. Then pass the smaller dollar to the headquarters/business. Ask students, what did the store or product market volunteer receive for the dollar?

Last, ask students how the Coca-Colas got to the store. Where were they made? Ask if Coca-Cola headquarters got them for free. So, take the dollar again, folding it smaller, and pass it to the factor market volunteer. Remind students what the business got in return.

Use distinct easy examples at first. I use a Coke because a factory is on Highway 41 in Marietta and the headquarters is in Atlanta. Some students have toured the factory in elementary school.

#6

Check students' understanding by asking them to draw a circular flow map. Usually they are not yet ready so I will go through it and draw it while answering the questions. Where do we buy goods? OK, exchange: Businesses sell to consumers through the product market. How do we get the money? We exchange our labor for wages or salaries: Consumers earn from businesses through the factor market. Students get confused between stores and businesses. Tell them the business is the headquarters that directs production and distribution, not that soft drinks are shipped from Marietta to Atlanta to Publix (the model is not geographical).

Now they all have the model in their notes neatly drawn with all exchanges labeled. I have them use different colors and suggest green for the revenue, money, wages, flows.

#7

Now, practice test question: What if Tanya works at Sears and shops there on break? I ask students, what is the exchange taking place if she is working for wages? She is in the factor market. If she is shopping, she is in the product market.

Then, I ask students: "What makes the money go around?" During the discussion someone will always ask or comment about how the model spirals because we don't shop where we work all the time. I use that as an opportunity to explain how this drives the economy. Demand for products drives worker demand. Procedure 9 has a link to an interactive website that shows economic growth from individual and group decisions. It is a great review and you can incorporate graphs of the production possibility frontier with it as you take the quiz.

Then I drop my overhead screen to cover the model drawn on the board and ask them to draw the model with the theoretical terms. After I check their progress and they grade themselves, I then ask them to draw a new one with their product of choice. Depending on time, this may be homework.

Ticket out the door is to fill in a blank on the model with the product market drawn on the opposite side from how it was drawn in class. For example, if you put the product market at the top of the diagram, now flip it to the bottom and leave all other parts of the model blank.

#8 (for assessment alternative 1)

Using the Internet, have students research a company to investigate how that company produces a product/good. Students should have prepared by choosing a product/good and a company beforehand. Have students choose a company that produces goods that they would like to investigate, not a retailer such as Wal-Mart, Sears, or Macy's. A list of companies is attached from the [Cobb County Chamber of Commerce](#) or your local chamber of commerce. The list is organized by categories. Students should focus on goods rather than services because they will be using this product in the next lesson and discovering which company produces it and how. Students may choose other companies/products than those on the list as it serves as a starting point.

Students will use this information to construct a map of the circular flow model. Their maps could incorporate several factors of production used in the production of the product/good. This map or graphic organizer could be drawn on paper or using Inspiration or Microsoft Word depending upon the resources available.

[Circular Flow Map Rubric](#)—Businesses, Households, and Markets

If students need assistance or would like clarification, review how to draw a map by using the Inspiration file of the slideshow. It builds a map using the [Inspiration file](#) in procedure 6.

Optional

Have students present their circular flow models and discuss the products'/companies' needs from the factor market. This can be a starting point for discussing derived demand.

#9

Have students go to the Producing Ohio [website](#) either individually or as a whole group activity. Show the moving illustration of the circular flow model to the students briefly and discuss what causes the speed of the model to vary. If the model is not moving, discuss the speed of movement in the circular flow model as students answer each quiz question. To take the online quiz, click **Continue** and it will begin.

#10

Writing assignment: Have students explain in their own words the answers to the guided subquestions in an essay using their product/company as examples.

Variation

Assign this as homework or as an in-class activity.

Format variation

Students could write a business proposal for the purpose of applying for a bank loan or a detailed brochure to attract potential investors.

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#11

As a concluding activity, discuss the following questions with students. Why are there goods for sale in the store? What does the business get from the sale of the good? What does the consumer get?

Ask: Why do stores supply products? Why do consumers demand products?

Remediation

Alternative 1

Sing “The Money Goes ‘Round and ‘Round” from the KidsEcon Posters [website](#). Other topics are also illustrated through songs. This song does a good job of simplifying the circular flow and providing a basis for adding additional verses on government, etc. To demonstrate understanding, have students write additional verses for government, product markets, and factor markets.

Alternative 2

Have students view the short clip from the microeconomics [PeachStar](#) video “Flows in a Market Economy” a second time and ask them to explain the circular flow cycle in their own words answering the questions from the PowerPoint as prompts for each step. Remind students that the circular flow is simply how the money goes round in our economy.

Acceleration

As they mention or begin to mention factors related to demand and supply, introduce these new topics by discussing how they drive the circular flow model. Refer back to the [slideshow](#) in Teaching Procedure 3 and guide them to the next step by asking if anything would be on the shelves if consumers refused to buy. What happens to products like these and the companies that make them?

Sing “The Market Song” from the KidsEcon Posters [website](#). Have students add verses to explain government, factor markets, and product markets. Then draw parallels to demand and supply explaining the definition of each.

#12 (to introduce international)

If we were in France, what would be exchanged at stores for products?