The Circular Flow Model

In the **PRODUCT MARKET**, firms are the sellers (supply) and households are the buyers (demand).

**Resource Market**
- **Land** (includes all production inputs provided by nature (natural resources)).
- **Labor** (the work of employees possessing human capital).
- **Capital** (includes all human-made goods used in the production of other goods and services).
- **Entrepreneurship** (entrepreneurs take risks and organize the factors of production to start a business).

**Government in the Circular Flow**
- **Taxes** (payment to government in exchange for public goods and services).
- **Transfer Payments** (payments, excluded from GDP, from government to households without a reciprocal exchange of resources).
- **Subsidies** (payments, excluded from GDP, from government to firms without a reciprocal exchange of goods or services).
- **Public Goods and Services** (goods and services like bridges and schools financed by tax dollars on behalf of society).

**Measuring the Economy Using the Circular Flow**

**Gross Domestic Product (GDP)**
- **C** = Personal Consumption
- **I** = Private Investment
- **G** = Government Expenditures
- **NX** = Net Exports

**National Income Accounting**
- **W** = Wages
- **I** = Interest
- **R** = Rents
- **P** = Profits

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