The Circular Flow Model

In the PRODUCT MARKET, firms are the sellers (supply) and households are the buyers (demand). Goods and Services flow from producers to consumers.

In the RESOURCE MARKET, households are the sellers (supply) and firms are the buyers (demand). Factors of production (Land, Labor, Capital, Entrepreneurship) flow from owners to producers.

Factors of Production: Land, Labor, Capital, Entrepreneurship

Goods and Services: Soccer balls, cell phones, public goods and services

Taxes: Paid by households and firms to the government.

Transfer Payments: Paid by the government to households.

Subsidies: Paid by the government to firms.

Public Goods and Services: Bridges, schools, defense.

Rent: Payment to households (income) in the resource market.

Wages/Salaries: Payment to households (income) in the resource market.

Interest: Payment to households (income) for lending money.

Profit: Payment to households (income) for organizing resources.

Product Market Calculation:

Gross Domestic Product = C + I + G + NX

Resource Market Calculation:

National Income Accounting = W + I + R + P

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