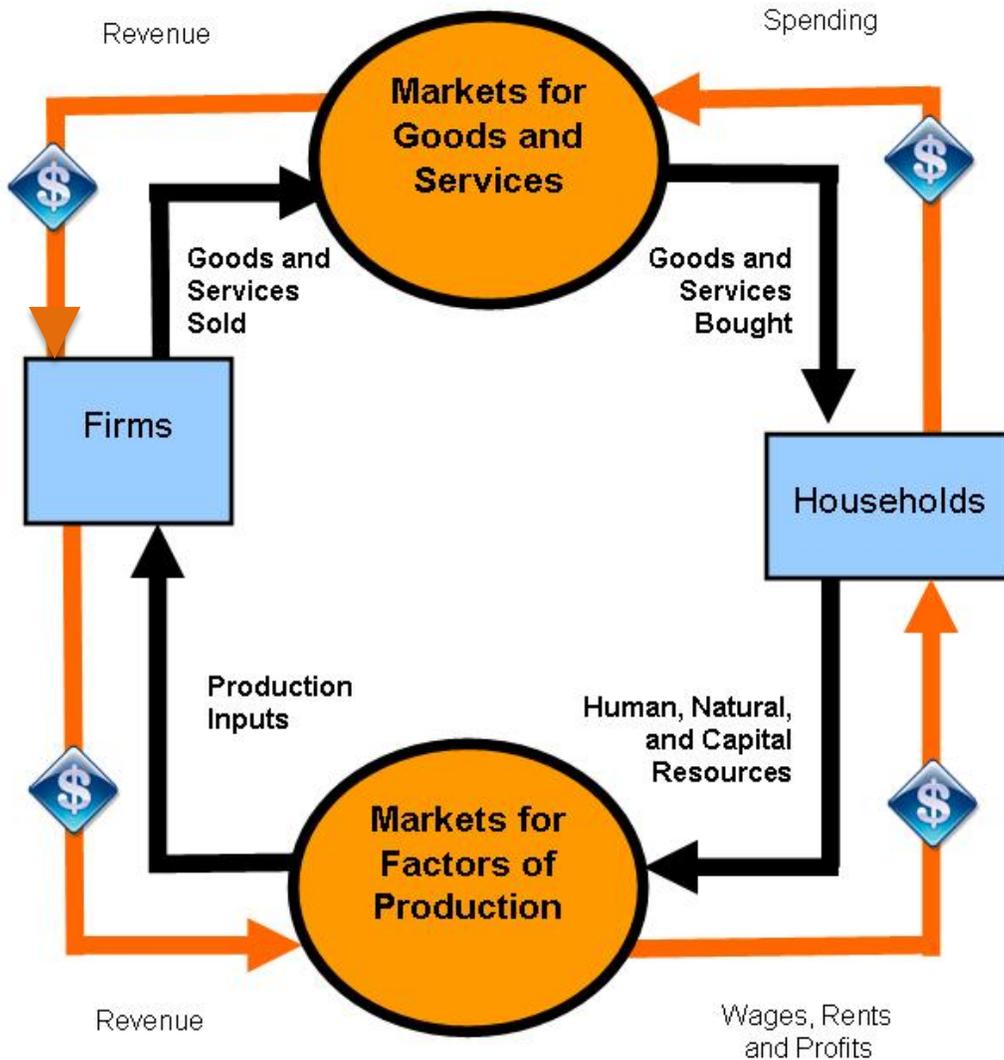


Lesson Graphic Organizer

Circular Flow Diagram



Big Idea Card

Big Ideas of Lesson 6, Unit 1

- The circular flow is a model used by economists to demonstrate how money moves through the economy to facilitate the exchange of resources and goods/services in the marketplace. In its simplest version, the circular flow involves firms and households, which interact in the marketplace.
- Households provide firms with resources (natural, capital, and human) in exchange for salaries, rents, and wages. They exchange these in what is known as the “market for factors of production.”
- Firms use natural, capital, and human resources to produce goods or services. Firms then sell the goods and services to households in exchange for revenue. This exchange occurs in the “market for goods and services.”
- The circular flow model shows the simultaneous roles of producers and consumers in a market economy.

Word Cards

Word Cards used from previous lesson:

- **scarcity** – Word Card #4 from Lesson 1
- **choice** – Word Card #5 from Lesson 1
- **opportunity cost** – Word Card #6 from Lesson 1
- **resources** – Word Card #7 from Lesson 1
- **capital good** – Word Card #23 from Lesson 4
- **consumer good** – Word Card #24 from Lesson 4
- **factors of production** – Word Card #26 from Lesson 5
- **natural resource** – Word Card #27 from Lesson 5
- **human resource** – Word Card #28 from Lesson 5
- **capital resource** – Word Card #29 from Lesson 5
- **entrepreneurial resources** - Word Card #30 from Lesson 5

37 households

the sector of the economy that includes the consuming, wants-and-needs satisfying population



Example: In economics, households refer to everyone seeking to satisfy unlimited wants and needs; it does not require that people own a home.
(SS100106)

38 businesses/firms

the sector of the economy comprised of organizations that combine scarce resources to produce goods and services



Example: In economics, businesses refer to the sector of the economy that contains the private, profit-seeking firms in the economy.
(SS100106)

39 money

a currency that functions as a medium of exchange, a store of value, and a standard unit of account



Example: The business used the money it earned from the sale of goods to households in the product market to buy labor in the factors market.
(SS100106)

40 government intervention

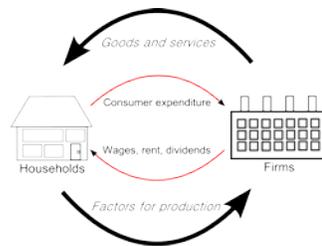
actions that the government takes in the economy such as taxes, price controls, regulations, etc. in order to achieve important social and economic goals



Example: Government intervention in the form of laws is necessary to protect consumers from deceitful businesses.
(SS100106)

41 circular flow model

a way to illustrate the flow
of goods and services
through the economy



Example: The circular flow model has two main markets – the “factor market” and the “goods and services market.” Households and businesses exchange the factors of production and goods and services in each of these markets.

(SS100106)

Circular Flow Cards

Natural Resource



Natural Resource



Natural Resource



Natural Resource



Natural Resource



Natural Resource



Natural Resource



Natural Resource



Natural Resource



Natural Resource



Human Resource



Human Resource



Human Resource



Human Resource



Human Resource



Human Resource



Human Resource



Human Resource



Human Resource



Human Resource



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HOUSEHOLDS



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**CAPITAL
RESOURCE**



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**CAPITAL
RESOURCE**



BUSINESS



BUSINESS



BUSINESS



BUSINESS



BUSINESS



BUSINESS



BUSINESS



BUSINESS



GOOD/SERVICE



GOOD/SERVICE



GOOD/SERVICE



GOOD/SERVICE



GOOD/SERVICE



GOOD/SERVICE



GOOD/SERVICE



GOOD/SERVICE



GOOD/SERVICE



GOOD/SERVICE



Overview of Households

Individuals function as both consumers and producers. In the U.S. economy, households act as consumers when they buy goods and services that businesses produce. These exchanges take place in product markets. Buying a new shirt at the mall is an exchange in a product market.

As resource owners, individuals function as producers by supplying productive resources to businesses, which use these resources to produce goods and services. These exchanges take place in resource markets. Paying wages for skilled and unskilled labor is an exchange in a resource market.

Businesses use three categories (but remember some economists view entrepreneurship as a separate category from labor) of productive resources to produce goods and services: labor, land and capital goods.

Human resources (also referred to as “labor”) refers to the number of people available for work and the skills and motivation of these individuals. *Entrepreneurship* refers to a special type of labor that assumes the risk of organizing other resources to produce goods and services.

Natural resources (also referred to as “land”) refers to natural resources that exist without human intervention. “Land” includes actual surface land, water, fish, mineral deposits and other gifts of nature.

Capital resources (also referred to as “capital goods”) are used to make other goods and produce other services. The machines, buildings and tools used in making computers, and other equipment for example, are capital goods.

Your Role During The Simulation

You have two objectives during the simulation:

1. Your first goal is to sell to businesses the human, natural and capital resources they use to produce a product or service.
2. Your second goal is to use the income you earn from selling your resources, to purchase from businesses goods and services for your households.

In order to accomplish your objectives, you will receive a random number of resource cards. In general, the more resources you sell, the more money you will earn to acquire those goods and services. Be sure to sell all your resource cards before the end of the simulation, only the goods and services you have will count.

Overview of Businesses

Like households, businesses function as both consumers and producers. Businesses supply goods and services in the product market. They are the buyers, or consumers, of the productive resources used to produce goods and services. Businesses try to sell their products for more than their costs of production, thereby earning a profit. If a business is not successful, it will incur losses.

Human resources (also referred to as “labor”) refers to the number of people available for work and the skills and motivation of these individuals. *Entrepreneurship* refers to a special type of labor that assumes the risk of organizing other resources to produce goods and services.

Natural resources (also referred to as “land”) refers to natural resources that exist without human intervention. “Land” includes actual surface land, water, fish, mineral deposits and other gifts of nature.

Capital resources (also referred to as “capital goods”) are used to make other goods and produce other services. The machines, buildings and tools used in making computers, and other equipment for example, are capital goods.

Your Role During The Simulation

Your goal is to earn a profit by supplying the goods and services households want. In this simulation, households want to buy goods and services, which businesses produce.

To obtain your main objective during the simulation – to make a profit – you will need to engage in three distinct steps during the simulation:

1. Your first goal is to purchase productive resources from the resource market.
2. Your second goal is to combine the resource cards to produce a good or service. In order to “produce” a good or service, you must have one of the following combinations:
 - human and capital
 - human and natural; or
 - capital and natural

Once you have one of the combinations above, turn them in to your teacher to obtain a good or service card.

3. Sell your good or service to household at a “price” that will ensure that profits are made. Remember, to earn a profit, you must sell the good or service for more than your cost of production.

In order to accomplish your objectives, you will receive a random amount of money to purchase factors of production (human, natural, and capital resources). In general, the more resources you buy, the more goods and services you will be able to produce. You need to be careful in negotiating the price you pay for productive resources and in setting the price for selling goods and services to ensure that you can make a profit.

CIRCULAR FLOW SIMULATION LEDGER FOR HOUSEHOLD

Names of Group Members:

Each round, write out the TOTAL \$, number OF GOODS/SERVICE sold and bought (HOUSEHOLD) OR the number of RESOURCES sold and bought (FIRM). Firms earn revenue to buy resources and sell goods/services, while Households earn income to buy goods/service and sell resources.

TOTAL RESOURCES Started with: _____

TOTAL \$ Started with: _____

FIRST ROUND:

TOTAL \$:

GOODS/SERVICES: Bought: _____

RESOURCES: Sold: _____

SECOND ROUND:

TOTAL \$:

GOODS/SERVICES: Bought: _____

RESOURCES Sold: _____

THIRD ROUND:

TOTAL \$:

GOODS/SERVICES: Bought: _____

RESOURCES: Sold: _____

FOURTH ROUND:

TOTAL \$:

GOODS/SERVICES: Bought: _____

RESOURCES: Sold: _____

FIFTH ROUND:

TOTAL \$:

GOODS/SERVICES: Bought: _____

RESOURCES: Sold: _____

OVERALL TOTAL:

TOTAL \$:

GOODS/SERVICES: Sold: _____ Bought: _____

RESOURCES: Sold: _____ Bought: _____

CIRCULAR FLOW SIMULATION LEDGER FOR FIRMS

Names of Group Members:

For each round, write out the TOTAL \$, number of RESOURCES sold and bought (FIRM). Firms earn revenue to buy resources and sell goods/services, while Households earn income to buy goods/service and sell resources.

TOTAL \$ Started with: _____

FIRST ROUND:

TOTAL \$: _____

GOODS/SERVICES: Sold: _____

RESOURCES: Bought: _____

SECOND ROUND:

TOTAL \$: _____

GOODS/SERVICES: Sold: _____

RESOURCES Bought: _____

THIRD ROUND:

TOTAL \$: _____

GOODS/SERVICES: Sold: _____

RESOURCES: Bought: _____

FOURTH ROUND:

TOTAL \$: _____

GOODS/SERVICES: Sold: _____

RESOURCES: Bought: _____

FIFTH ROUND:

TOTAL \$: _____

GOODS/SERVICES: Sold: _____

RESOURCES: Bought: _____

OVERALL TOTAL:

TOTAL \$: _____

GOODS/SERVICES: Sold: _____

RESOURCES: Bought: _____

Class Ledger

	<u>FIRMS</u> RESOURCES BOUGHT	<u>FIRMS</u> GOODS AND SERVICES SOLD	<u>Firms</u> TOTAL \$	<u>HOUSEHOLDS</u> RESOURCES SOLD	<u>HOUSEHOLDS</u> GOODS AND SERVICES BOUGHT	<u>HOUSEHOLDS</u> TOTAL \$
ROUND I						
ROUND II						
ROUND III						
ROUND IV						
ROUND V						