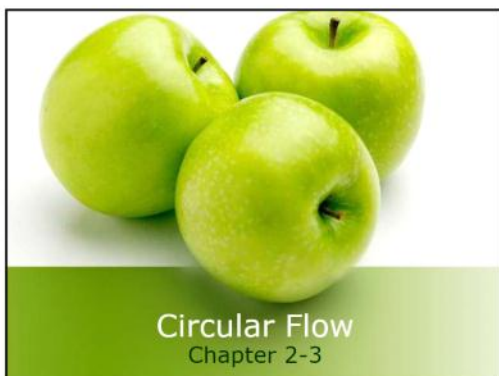



Circular Flow

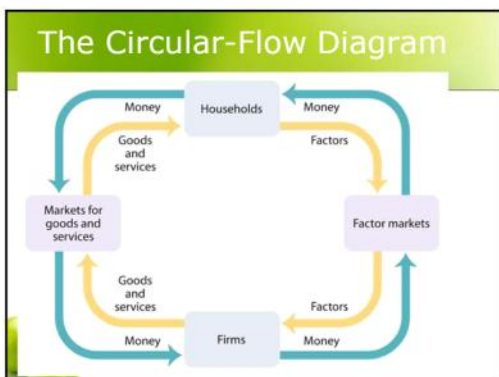
Tuesday, February 05, 2013
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Transactions: The Circular-Flow Diagram

- Trade takes the form of **barter** when people directly exchange goods or services that they have for goods or services that they want.
- The **circular-flow diagram** is a model that represents the transactions in an economy by flows around a circle.





Circular-Flow of Economic Activities

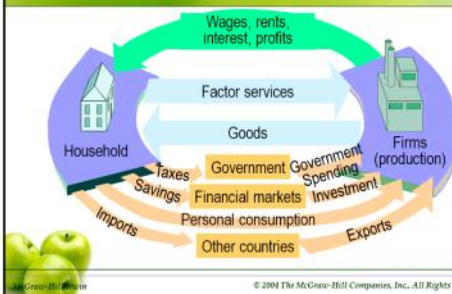
- A **household** is a person or a group of people that share their income.
- A **firm** is an organization that produces goods and services for sale.
- Firms sell goods and services that they produce to households in **markets for goods and services**.
- Firms buy the resources they need to produce—**factors of production**—in **factor markets**.



The Circular Flow



The Circular Flow



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