

AP Macroeconomics

The Circular Flow of Economic Activity

Circular Flow Concepts

Product Market – where goods and services are exchanged



Households – suppliers of the factors of production & demanders of goods and services



Government – providers of public goods and services & demanders of both private goods and services and the factors of production



Businesses / Firms – suppliers of goods and services & demanders of the factors of production

Factor Market – where the factors of production are exchanged

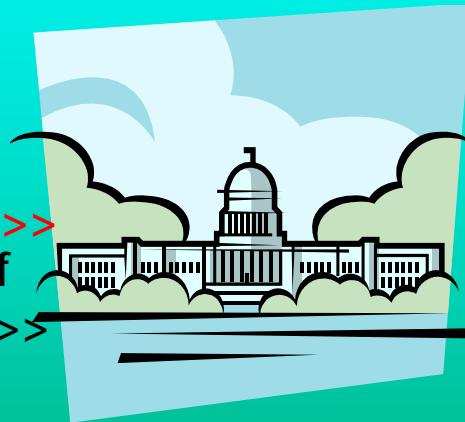
Product Market

Goods and Services
Household Spending



Households

<<<public goods<<<
>>>\$ taxes \$>>>
>>>factors of production>>>
<<\$ factor payments \$<<



Government

<<<goods & services<<<
>>\$ government spending \$>>
>>>public goods>>>
<<\$ taxes \$<<



Businesses / Firms

\$ Rent, wages, interest & profits \$

Land, labor, capital & entrepreneurship

Factor Market