KEY

**The Circular Flow – A model of economic activity**

I. Two Markets in the circular flow:

1. **Product Market: The "place" where goods and services are bought and sold. All of the supply and demand curves for products are here.**
2. **Resource Market: the "place" where resources (the factors of production) are bought and sold. All of the supply and demand curves for the factors of production are here.**

II. Two Actors in the simple circular flow:

**A. Households: Those who sell resources (the factors of production) to businesses in the resource market.**

1. **Businesses: Those who sell goods and services to households in the product market**

Note to Instructors: Stop now and do the example

III. 3rd actor in the expanded circular flow: **Government**

**A. Government buys goods and services in the product market (cars, phones, military hardware, etc)**

**B. Government buys resources in the resource market (Government employees)**

**C. Government provides goods and services to both businesses and households.**

**D. Government collects taxes from both businesses and households.**

