

## Handout 1-9-2 The Circular Flow of Economic Activity

I Owners of resources (families and individuals) supply the services of their land, labor, and capital to businesses in exchange for money income payments in the form of wages, salaries, rents, interest, and profits. Owners of the resources in turn use these income payments to purchase the finished goods and services supplied by the businesses. Business firms then use the proceeds from these sales to pay the resource owners for the services the firms receive by employing the resources. This is how the circular flow of resources, goods, services, and money income payments is established and maintained.

II In the circular flow chart (diagram) below, the curved lines with arrows show the direction of payments and products that flow to and from households and businesses. The outer set of lines shows the flow of income (money payments). The inner set of lines shows the flow of products and services for which the payments are made. Label the lines to describe what the two sets of flows consist of. (One label for the flow of products and services has already been written in to help you get started.)

