Circular Flow Model practice activity

Directions: Answer the questions below

1. Fill in the blank lines on the circular flow model below.

   ![Circular Flow Model Diagram]

   a. 
   b. 
   c. 
   d. 

2. In the resource market:

   a. What is the role of firms?

   b. What is the role of households?
3. In the product market:
   a. What is the role of firms?
   b. What is the role of households?

4. Give three examples of resource markets:
   1.
   2.
   3.

5. Give three examples of product markets:
   1.
   2.
   3.

6. What determines the amount of income a household will earn in the resource market? Why do some households earn higher incomes than others?
7. What determines the amount of money a firm will earn in the product market? Why do some firms earn so much more money than others in a market economy?

8. What is the goal of a household in a market economy? Based on this simple goal, what is the best way for a household to achieve it?

9. What is the goal of a firm in a market economy? How can a firm best achieve this goal?

10. What makes the exchanges that take place in a market economy “mutually beneficial”?

11. What role does money play in the circular flow model?

12. As we know, there is no pure free market in the world. How does government intervene in a market economy?
13. In the space below, create your own diagram of a mixed economic system based on the original market economy. Hint: It is easiest to put government in the center.