The Circular Flow: A Very Simple Model

- **Households**
- **Households**
- **Firms**
- **Firms**
- **Product Markets**
- **Factor Markets**

1. **Factor Payments**: From Households to Firms
2. **Income**: From Firms to Households
3. **Revenue**: From Households to Product Markets
4. **Expenditure**: From Product Markets to Households
Households

Firms

Factor Markets

Factor Incomes: Wages, Dividends, Rent

Product Markets

Consumption

Savings

Financial Markets

Lending

The Circular Flow: A More Complete Model
The Circular Flow: The Place of Investment

Households

Capital Goods Firms

Consumer Goods Firms

Goods Markets

Financial Markets

Factor Markets

Factor Incomes

Saving

Consumption

Investment

Lending
The Circular Flow: The Role of Government

- Financial Markets
- Goods Markets
- Capital Goods Firms
- Consumer Goods Firms
- Households

- Investment
- Consumption
- Saving
- Lending
- Government Expenditure
- Taxes - Transfers
- Factor Incomes
- Government

- Saving
- Investment
- Consumption
- Lending
- Government Expenditure
- Taxes - Transfers
- Factor Incomes
- Government