

LESSON 6

Circles within Circles

1. FOCUS

Student Objectives

- Define market and market economy.
- Explain the circular flow of goods, services, resources, and money in a market economy.
- Explain the role of households and businesses in the circular flow.
- Define income, revenue, and profit.

Background

A market is a setting in which people buy and sell goods and services and resources. A market economy is an economic system in which most goods, services, and resources are exchanged by private households and businesses. Prices are determined by buyers and sellers making exchanges in private markets. Americans live in a market-oriented economy.

Households are private individuals and family units who sell or rent their productive resources to businesses and receive income in return. Households, as consumers, buy goods and services from businesses. Businesses are private organizations which, as producers, buy productive resources from households to produce goods and services which they sell to households with the goal of earning a profit. The payments businesses make to buy resources are the costs of production. The difference between the revenue businesses receive from selling goods and services and the costs of production is called profit.

The circular flow model at the end of this lesson shows the interaction between households and business firms in the product market (top of diagram) and resource market (bottom of diagram). The model represents the relationship between households and businesses as they exchange goods and services in the product market and as they exchange resources in the resource market. Both businesses and households play dual roles. Sometimes they are buyers, and sometimes they are sellers, depending on the market in which they are exchanging.

Concepts

Goods, services, resources, market, income, revenue, consumers, producers, profit

Preview

- **In the United States, goods and services and resources are exchanged between buyers and sellers in private markets.**

2. PREPARE

Activity 10: Circles within
Circles Skit

Activity 11: Circular Flow Model
Colored oak tag

Costume cards with enough yarn
attached to hang comfortably
from students' necks:

Two narrator cards (white)

Two or more household cards
(yellow)

Two or more business cards
(brown)

Two or more productive resources
cards (blue)

Two or more goods and services
cards (orange)

Four or more money cards (green)

Ball of yarn

Note: These numbers represent
roles for 14 students to partici-
pate in the skit.

1. Prepare an open area in the front of the classroom or stage area to perform the skit.
2. Duplicate copies of Activities 10 and 11 for each student.
3. Assign roles in the skit.
4. Prepare costume cards listed above by attaching lengths of yarn to the colored cards you have labeled.

3. TEACH

Introduction

Ask students for examples of markets in which they buy or sell something.

Tell students that our economy is called a market system. A market is a setting in which people can buy or sell goods and services or resources. People who make or sell goods or services are called producers. People whose wants are satisfied by buying goods and services are called consumers. The payment people receive for selling or renting their productive resources is called income. In the United States, most goods and services are exchanged in private markets. (The government is not directly involved in exchanges.) Think about going to a grocery store to see how a market system operates.

Ask students:

- What are some goods people want to buy at the grocery store? (Fruit juice, bread, meat, paper towels, lettuce.)
- How do people get the money to buy these goods? (Allowance, gift, salary from a job.)
- What does the owner of the grocery store want to sell? (Fruit juice, bread, meat, paper towels, lettuce.)

Tell students that the owner of the grocery store gets the money to buy the goods displayed on the shelves by selling other goods. (Economists call this money **revenue**.) Explain to students that a business makes a **profit** when the revenue it receives is greater than the costs of producing and selling goods.

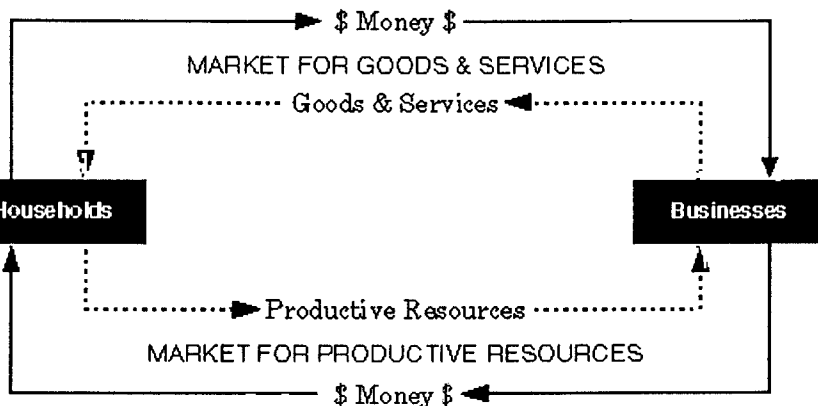
Tell students that people in households receive **income** for their labor.

Activities

1. Explain to students that they are going to make a model of our market econo-

my. (The skit will be performed twice, with half the class performing each time, while the other half watches.) Assign students roles to play and distribute costume cards. (Roles: narrators, households, businesses, productive resources, goods and services, and money.) Hand out copies of Activity 10.

2. Tell the narrators to come forward and stand as if they are conducting an orchestra. Have students perform the skit and then return to their seats.
3. Use the costume cards to construct a model of the circular flow on the bulletin board. It should look like the diagram shown.



4. **Closure.** Hand out copies of Activity 11 and review it. Referring to Activity 11 or to the bulletin board circular flow model, ask students:

- What do households buy and what do they use to pay for these things? (Households buy goods and services with money.)
- Where do households usually get the money they use to buy things? (Households get money from the income they earn.)
- What do households sell and what do they get when they sell these things? (Households sell their resources to obtain incomes.)
- What do businesses buy and what do they use to pay for these things? (Businesses buy resources with money.)
- Where do businesses get the money they use to buy resources? (Businesses get money from their revenue or by borrowing money.)
- What do businesses sell and what do they get when they sell these things? (Businesses sell their goods and services to obtain revenue and to make a profit.)

5. Have second half of class perform the skit.

6. **Critical Thinking.** Once students understand how all parts of the model work together, have them analyze a situation in which something happens to disrupt the model. (For example, a business leaves to manufacture goods in Taiwan, or forest fires destroy one-third of a country's wood resources.)

Households and businesses play dual roles. Sometimes they are buyers and sometimes they are sellers.

4. CONNECT

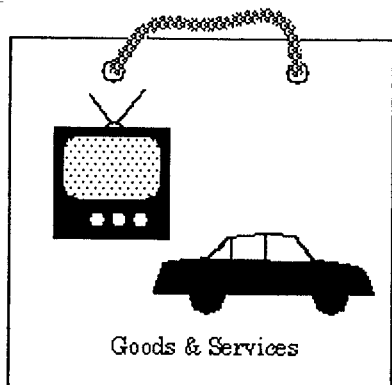
Bulletin Board. Have students cut out pictures of households, businesses, goods and services, and resources to enhance the bulletin board circular flow model.

Family Corner. Survey the class to find out what goods and services a typical family in their community might buy.

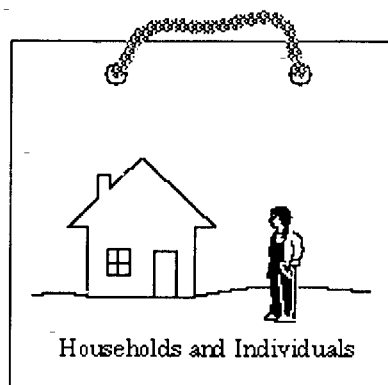
Children's Literature:

- Cosgrove, Stephen. *The Muffin Muncher*. Los Angeles: Price, Stern, Sloan, Inc., 1988. A hardworking, muffin-baking kingdom gets into trouble when a hungry dragon camps at its gate and interrupts the flow of goods and services.

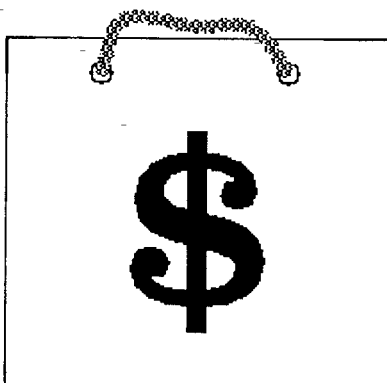
Costume Cards



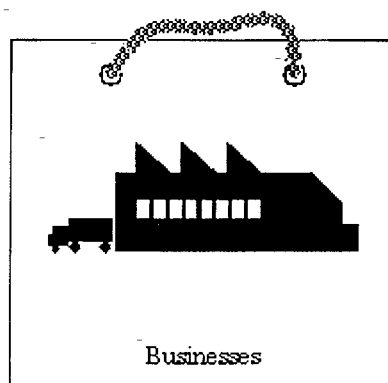
Orange paper/At least two students



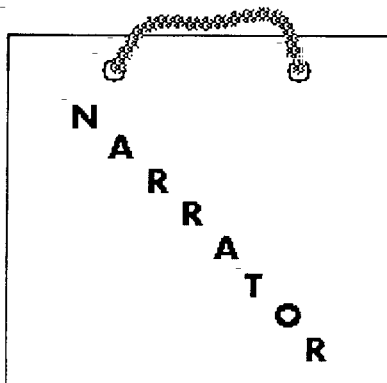
Yellow paper/At least two students



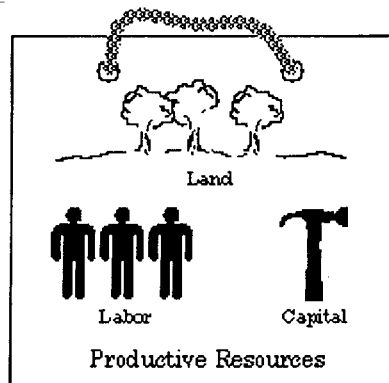
Green paper/At least four students



Brown paper/At least two students



White paper/Two students



Blue paper/At least two students

ACTIVITY 10

Circles within Circles Skit

- Narrator 1:** Welcome to our market economy. What you are about to see may surprise and amaze you. We are going to build a model of our market economy right before your eyes. Ladies and gentlemen, please watch closely because we may test you at the end of our performance.
- Narrator 2:** Let us begin. Households, please assemble to my left. (Wait for movement to stop.) Good day to all the households. Please tell our audience about yourselves.
- Households:** (Read together) Households are made up of individuals and families. We are consumers in a market economy when we buy goods and services. We spend our income on goods and services we want. Income is the money we earn from selling our resources to businesses.
- Narrator 1:** Thank you, households. The next important part of our market economy are businesses. Businesses, please assemble to my right. (Wait for movement to stop.) Welcome to all the businesses. Please tell us about yourselves.
- Businesses:** (Read together) Businesses are the producers who make and sell goods and services. Revenue is the money we earn from selling goods and services in the market. We also buy resources from the households so that we can produce and sell goods and services.
- Narrator 2:** Thank you, businesses. Now the consumers of goods and services (ask households to wave) and the producers of goods and services (ask businesses to wave) meet in the marketplace to buy and sell goods and services. Let me repeat. Consumers of goods and services (wave) and producers (wave) meet in the marketplace to buy and sell goods and services. Money is exchanged in the market when consumers, or households, buy goods and services from producers, or businesses.
- Narrator 1:** Now we will look at goods and services. Goods and services, assemble at the front of the room between the households and the businesses. (Wait for movement to stop.) Hello, goods and services. Please describe yourselves for us.
- Goods & Services:** (Read together) Goods and services are things consumers buy to satisfy their wants. Televisions and automobiles are goods. Services

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10

ACTIVITY 10 (continued)

Circles within Circles Skit

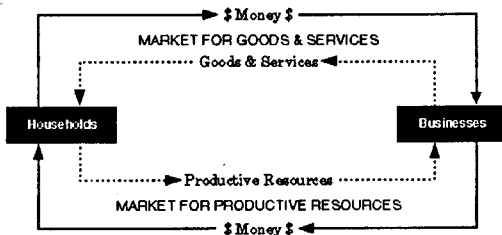
- are activities that one person does for someone else, such as fixing a broken washing machine or cutting a lawn. Businesses (point to businesses) sell goods and services to households (point to households) who want them and are willing to pay for them.
- Narrator 2:** Thank you, Goods and Services. Now we will hear from the Productive Resources. Productive Resources, assemble at the back of the room between the households and the businesses. (Wait for movement to stop.) Would the Productive Resources please describe themselves?
- Productive Resources:** (Read together) Productive resources are natural resources, human resources, and capital resources used in the production of goods and services. Businesses (point to businesses) buy productive resources from households to make goods and services. Households (point to households) sell their productive resources to businesses in order to earn incomes with which to buy goods and services.
- Narrator 1:** Thank you, Money. Money is exchanged as households buy goods and services from businesses. Money is also exchanged as businesses buy productive resources from households. Will two Money cards and two Productive Resources cards stand with the Households? Will two Money cards and two Goods and Services cards stand with the Businesses?
- Narrator 2:** This picture of our market economy is called a "circular flow." This means that it forms a circle. Households sell productive resources to businesses to earn money. (Productive Resources move in a semicircle, going from Households to Businesses, while two Money cards move in a semicircle, going from Businesses to Households.) Notice that Productive Resources and Money are exchanged when households sell their productive resources to businesses.
- Narrator 1:** Households buy goods and services from Businesses in exchange for money. (Goods and Services move in a semicircle, going from Businesses to Households, while two Money cards move in a semicircle, going from Households to Businesses.) Notice that Goods and Services and Money are exchanged when businesses sell their products to consumers. Money is used by both businesses and households to exchange for the resources or goods and services each wants.

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11

ACTIVITY 11

Circular Flow Model



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12

ACTIVITY 10

Circles within Circles Skit

- Narrator 1:** Welcome to our market economy. What you are about to see may surprise and amaze you. We are going to build a model of our market economy right before your eyes. Ladies and gentleman, please watch closely because we may test you at the end of our performance.
- Narrator 2:** Let us begin. Households, please assemble to my left. (Wait for movement to stop.) Good day to all the households. Please tell our audience about yourselves.
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ACTIVITY 10 (continued)

Circles within Circles Skit

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Narrator 2:

Thank you, Goods and Services. Now we will hear from the Productive Resources. Productive Resources, assemble at the back of the room between the households and the businesses. (Wait for movement to stop.) Would the Productive Resources please describe themselves?

Productive Resources:

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Narrator 1:

Thank you. Money is exchanged as households buy goods and services from businesses. Money is also exchanged as businesses buy productive resources from households. Will two Money cards and two Productive Resources cards stand with the Households? Will two Money cards and two Goods and Services cards stand with the Businesses?

Narrator 2:

This picture of our market economy is called a “circular flow.” This means that it forms a circle. Households sell productive resources to businesses to earn money. (Productive Resources move in a semicircle, going from Households to Businesses, while two Money cards move in a semicircle, going from Businesses to Households.) Notice that Productive Resources and Money are exchanged when households sell their productive resources to businesses.

Narrator 1:

Households buy goods and services from Businesses in exchange for money. (Goods and Services move in a semicircle, going from Businesses to Households, while two Money cards move in a semicircle, going from Households to Businesses.) Notice that Goods and Services and Money are exchanged when businesses sell their products to consumers. Money is used by both businesses and households to exchange for the resources or goods and services each wants.

ACTIVITY 11

Circular Flow Model

