

# Macroeconomics: circular flow of economics assignment

[Economics](#)



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The circular flow model is defined as the flow of resources from households to firms and of products to firms from households. These flows are accompanied by reverse flows of money from firms to households and from households to firms. The circular flow is comprised of the resource market, households, product market, businesses, and the government.

Macroeconomics – The study of the aggregate (total) Behavior of the whole economy. Macroeconomics Aggregates: – Unemployment rate: Percent of people in the labor force is not working but searching for work. Inflation rate: Percent rise in the average price of all goods and services. GAP: Dollar value of all final goods and services produced within a country in a given year; Output A Market is an institution or mechanism which brings together buyers (demander) and sellers (suppliers) of particular goods and services. The Forces of supply and demand – In the united States and in other free enterprise systems, the distribution of resources and products is determined by supply and demand. Demand is the number of goods and services that consumers are willing to buy at different rises at a specific time. A fundamental characteristic of demands all else being constant, as prices fall, the quantity demanded rises.

Vice versa all there things remaining the same as price increases, the corresponding quantity demanded falls. Us apply – The number of prod cuts- goods and services that businesses are willing to sell at different prices at a specific time. As price increases, the corresponding quantity supplied increases; as prices fall, the quantity supplied also falls. Equilibrium price – The supply and demand curves intersect at the point where supply and demand are equal. The price at which the number of products that

businesses are willing to supply equals the amount of products that consumers are willing to buy at a specific point in time.

The United States and the economy – The United States has the most powerful, diverse, and technological advanced economy in the world.

Oriented economy, private individuals, and business firms make most of the decisions. Government purchases of goods and services are made predominantly in the marketplace. US business firms have greater flexibility than their counterparts in Western Europe and Japan in decisions to expand capital plant, lay off surplus workers, and develop new products.

In all economic sectors, US firms are at or near the forefront in technological advances, especially in computers, medical equipment, and aerospace, although their advantage has steadily narrowed since the end of World War 2. The excellent technology explains the gradual development of a "two-tier labor market" in which those at the bottom lack the education and professional / technical skills of those at the top and, fail to get pay raises, health insurance coverage, and other benefits. The circular flow – The continuous movement of production, income, and resources between producers and consumers.

This flow moves through product markets, as the gross domestic product of our economy and is the revenue received by businesses in payment for this production. The flow of revenue flows to resource markets as payments by businesses for the resources employed in production. The payment received by resource owners is income. Resource owners use this income to purchase goods and services through the product markets. This flow can be altered in

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a number of different ways, especially by government. Taxes are sliced by income, wages, profit, etc. But are then used for expenditures by government on other things bought through the product markets.

Consumers also divert a portion of their income into saving, which is then used to finance the federal deficit or business investment. For every buyer there is a seller, The seller receives what the buyer buys, The buyer gives money for goods and the seller gives goods for money. National income is the total value of all factor payments during a period of time. Tensional income is a measure of the total economic flow through the factor marker. Gross national product should equal the national income.

GAP is the total market value of all final goods and services produced during a given period and time within the nations borders. Gross domestic product is the most common measure of the level of economic activity at the national level. Households own the economy's resources ( Factors of production; land, labor, and capital) whose services they rent or sell to firms or businesses through factor markets in exchange for factor payments (rental payments, wage payments, interest, and profits). Households use their factor income to arches goods and services, capital goods.

Households also use part of their factor income to pay government taxes. 75% of national income is received as wages and salaries. Part of the income goes to the government as personal taxes, and the rest is divided between personal consumption expenditures and personal saving. Economists define saving as " the part of after-tax income which is not consumed. " Households have two choices with their income after taxes, to consume or save. The

desire or willingness to save depends on the size of your income, if your income is low, you may consume less.

Saving and consumption vary directly with income, as the households get more income, they divide it between saving and consumption. Households offer labor service as a factor of production and businesses repay them with income or salaries. The fact that households consume a certain portion of total income, does not guarantee they will consume the proportion of any change in income they might receive. The proportion or fraction, of any change in income consumed is called the marginal propensity to consume. MPC is the change in consumption divided by the change in income.

The marginal propensity to save, MPS is the ratio of change in saving to the change in income. The sum of MPC and MPS for any change in disposable income must always be one. As households save a portion of their income into the financial market, the financial market distributes to households interest accrued on the money saved. The financial market is a market that trades financial assets. Financial assets are the legal claims on the real assets in our economy including corporate stocks and bonds, government securities, and money.

Without financial markets it would be impossible to accumulate the funds needed for investment in capital projects. Firms or businesses employ factors of production, which they obtain from households through the factor markets in exchange for factor payments. They use factors to produce goods and services, which are sold to households and the government sector through the goods and services markets. The revenue from these sales goes

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to households as factor payments or to the government as taxes. The government sector purchases output from firms through the goods and services markets, financing these purchases by tax collections.