Follow the Flows

Trace goods, labor, and money through a local economy.

SS24.E.4a "Utilize circular flow diagrams to illustrate and explain the operation of the product market; the operation of the factor market; the real flow of goods and services between and among businesses, households, and government..."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline each transfer of labor, goods, or services, and circle each transfer of money. Draw a small arrow in the margin beside one transfer in each market to show its direction.

A Bakery in the Circular Flow

1. Before sunrise, workers arrive at a neighborhood bakery to mix dough and bake bread. The workers belong to households, which supply labor to the bakery. In return, the bakery pays them wages. This exchange takes place in the factor market, where businesses obtain resources used to produce goods and services. A circular flow diagram would show labor moving from households to the business and wages moving the other way. The arrows represent different kinds of flows: labor is a real flow, while wages are a money flow. Both arrows are needed to show the exchange.

2. Later, neighbors buy loaves at the bakery counter. Bread moves from the business to households, while payments move from households to the business. This exchange takes place in the product market, where finished goods and services are sold. The bakery also fills an order for a city-run senior center. It delivers rolls to the city government, which pays the bakery from its budget. A diagram can show this purchase with another pair of arrows. Although the buyers differ, both purchases send money toward the bakery and baked goods toward a buyer.

3. The city collects taxes from households to help fund services, including meals at the senior center. The money moves from households to government, while the meals are services that government makes available to residents. A tax is not the price of a particular meal or loaf. When drawing the full circular flow, keep these tax and service arrows distinct from the bakery's sales. Together, the arrows show how households, businesses, and government are connected. Check each arrow by asking what moves, where it starts, and where it ends.

2 ANSWER WITH EVIDENCE

Use the passage

1. Draw or describe the two arrows between households and the bakery in the factor market. Label what each arrow carries.

2. For a neighbor's bread purchase, which way does the real flow move, and which way does the money flow move?

3. Add the senior center's order to a circular flow diagram. What moves between the bakery and city government, and in which directions?

4. How would you show taxes and senior-center meals between households and government? Explain why the tax arrow is not a product-market payment.

3 YOUR TURN

Your own words

Draw a circular flow diagram for a local business other than a bakery. Include households, the business, and government; label opposite real-flow and money-flow arrows for a factor-market exchange, a household product-market purchase, and a government purchase. Write two sentences explaining how your arrows connect the three groups.

ANSWER KEY

Follow the Flows

GRADE 12 · SS24.E.4a

PART 1 · READ AND MARK

Underline each transfer of labor, goods, or services, and circle each transfer of money. Draw a small arrow in the margin beside one transfer in each market to show its direction. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	Draw or describe the two arrows between households and the bakery in the factor market. Label what each arrow carries.	**Labor moves from households to the bakery. Wages move from the bakery to households.**
2	For a neighbor's bread purchase, which way does the real flow move, and which way does the money flow move?	**Bread moves from the bakery to the household. Payment moves from the household to the bakery.**
3	Add the senior center's order to a circular flow diagram. What moves between the bakery and city government, and in which directions?	**Rolls move from the bakery to city government. Payment moves from city government to the bakery.**
4	How would you show taxes and senior-center meals between households and government? Explain why the tax arrow is not a product-market payment.	**Taxes move from households to government, and government-provided meals reach residents. A tax is not the price paid for a particular meal.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

Households → bike-repair shop: labor (factor market); bike-repair shop → households: wages. Bike-repair shop → households: bike repairs (product market); households → bike-repair shop: payments. Bike-repair shop → government: repairs to city bikes (product market); government → bike-repair shop: payment. Households supply labor and receive wages, then purchase repairs from the shop. The government also buys repairs, sending money to the shop in exchange for its service.

Accept any accurate local business example with correctly directed and labeled real and money flows for all three exchanges. Government purchases must show a good or service moving to government and payment moving to the business.