Follow the Flow

Trace resources, products, and money through two markets.

E.1.9 "Diagram and explain the circular flow of a market economy."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline the four bakery-related transfers of labor, wages, bread, and payment. Label each transfer R for the resource market or P for the product market to prepare your diagram.

A Loaf's Journey

1. On Saturday, a neighborhood bakery opens before sunrise. Its owners need workers, ovens, and flour to make bread. In a market economy, households and businesses make choices about what to buy or sell. Households own resources such as labor, land, and savings. Businesses use resources to produce goods and services. A student from a nearby household works at the bakery. The student's labor moves from the household toward the bakery through the resource market. The bakery pays the student wages in return. Those wages move in the opposite direction, from the bakery back to the household.

2. Later that morning, the student's family buys a loaf at the same bakery. Bread moves from the business to the household through the product market. The family's payment moves from the household to the bakery in the opposite direction. The bakery can use its revenue to pay workers and buy more supplies, while households can use income to buy other goods and services. A diagram of circular flow uses arrows because each exchange has a direction. If an arrow points from the bakery to the household, its label must identify what actually travels that way.

3. The two markets connect decisions that might seem separate. A household may earn wages at one business and spend them at another. A business pays for resources in the resource market and receives spending in the product market. To diagram this pattern, put households and businesses on opposite sides and place the resource market and product market between them. Draw separate, labeled arrows for resources, income, goods and services, and spending. The arrows for resources and goods show real things or work moving. The arrows for income and spending show money moving.

2 ANSWER WITH EVIDENCE

Use the passage

1. In the resource market, which way does the student's labor move, and which way do wages move?

2. In the product market, which way does the bread move, and which way does the family's payment move?

3. Trace how money paid by the student's family can return to a household as income. Name both money flows and the business between them.

4. A classmate draws an arrow labeled wages from the household to the bakery. How should the arrow be corrected, and what exchange does it pair with?

3 YOUR TURN

Your own words

Invent a different local business and draw a circular-flow diagram with households, your business, the resource market, and the product market; label four directional arrows for labor, wages, a good or service, and spending. Beneath your diagram, write two sentences explaining one resource-market exchange and one product-market exchange.

Follow the Flow

PART 1 · READ AND MARK

Underline the four bakery-related transfers of labor, wages, bread, and payment. Label each transfer R for the resource market or P for the product market to prepare your diagram. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	In the resource market, which way does the student's labor move, and which way do wages move?	**Labor moves from the household to the bakery. Wages move from the bakery to the household.**
2	In the product market, which way does the bread move, and which way does the family's payment move?	**Bread moves from the bakery to the household. Payment moves from the household to the bakery.**
3	Trace how money paid by the student's family can return to a household as income. Name both money flows and the business between them.	**The family's payment goes to the bakery. The bakery pays wages to the student, returning money to the household.**
4	A classmate draws an arrow labeled wages from the household to the bakery. How should the arrow be corrected, and what exchange does it pair with?	**Reverse the arrow: wages move from the bakery to the household in exchange for labor moving from the household to the bakery.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

Households → resource market → bicycle repair shop: labor
Bicycle repair shop → resource market → households: wages
Bicycle repair shop → product market → households: bicycle repair services
Households → product market → bicycle repair shop: spending

Households supply labor to the shop through the resource market and receive wages in return. The shop supplies repair services through the product market and receives customers' spending in return.

Accept any plausible business and good or service. Check that all four arrows point in the correct directions, pass through the appropriate markets, and match the two written explanations.