

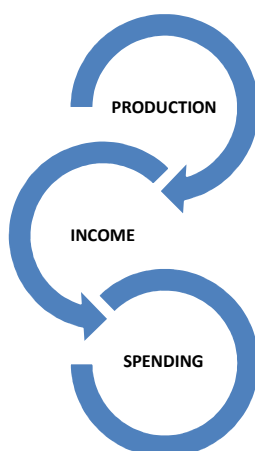
LEARNING UNIT 3

- **DATE:** FEBRUARY 2014
- **MODULE:** PMIC6111
- **TEXTBOOK REFERENCE:** PAGES 41 – 47
- **THEME:** ROLE OF HOUSEHOLDS AND FIRMS IN CIRCULAR FLOW OF INCOME & SPENDING

- **OBJECTIVES:** BY END OF LEARNING UNIT 3 – YOU SHOULD KNOW THE FOLLOWING:
 - IDENTIFY 3 MAJOR FLOWS IN ECONOMY
 - IDENTIFY STOCK AND FLOW VARIABLES AND SHOW RELATIONSHIP BETWEEN THEM
 - DIAGRAM SHOWING INTERACTION BETWEEN HOUSEHOLDS AND FIRMS
 - DISTINGUISH BETWEEN GOODS AND FACTOR MARKET

LEARNING UNIT 3

➤ 3 MAJOR FLOWS IN MARKET



LEARNING UNIT 3

- **STOCKS**
 - MEASURED AT A PARTICULAR POINT IN TIME Box 3-1 pg 44

- **FLOWS**
 - MEASURED OVER A PERIOD OF TIME

- **PRODUCTION, INCOME, SPENDING**
 - ARE FLOWS – CAN ONLY BE MEASURED OVER A PERIOD OF TIME

LEARNING UNIT 3

- **MIXED ECONOMY**
 - HOUSEHOLDS
 - FIRMS
 - GOVERNMENT
 - FOREIGN SECTOR
 - ALL CONTRIBUTE TOWARDS TOTAL PRODUCTION
 - ALL EARN INCOME
 - ALL SPEND INCOME
 - IMPORTANT ACTIVITY THAT LINKS ALL SECTORS IS **EXCHANGE** i.e. EXCHANGE OF GOODS AND MONEY

LEARNING UNIT 3

➤ FUNDAMENTAL SETS OF MARKETS:

➤ **GOODS MARKET**

- MANY MARKETS FOR CONSUMER GOODS

➤ **FACTOR MARKETS**

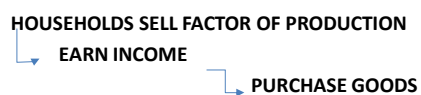
- INCLUDES LABOUR AND CAPITAL GOODS MARKETS
- INCOMES EARNED ARE WAGES, SALARIES, RENT, INTEREST AND PROFIT

LEARNING UNIT 3

➤ INTERDEPENDENCE BETWEEN HOUSEHOLDS AND FIRMS

➤ **HOUSEHOLDS**

- PEOPLE WHO LIVE TOGETHER AND COLLECTIVELY MAKE ECONOMIC DECISIONS
- ASSUME CONSUMERS ARE RATIONAL i.e. ATTEMPT TO MAXIMISE SATISFACTION
- TOTAL SPENDING BY HOUSEHOLDS IS CALLED **TOTAL CONSUMPTION**
- ULTIMATELY CONSUMERS (HOUSEHOLDS) WHO DETERMINE WHAT IS TO BE PRODUCED
- RESPONSIBLE FOR SPENDING ON CONSUMER GOODS (C)



LEARNING UNIT 3

➤ FIRMS

- UNIT THAT USES FACTORS OF PRODUCTION TO PRODUCE GOODS AND SERVICES
 - BUYERS IN FACTOR MARKETS
 - SELLERS IN GOODS MARKET
 - USUALLY DECIDE HOW GOODS PRODUCED
 - ASSUME FIRMS AIM TO MAXIMISE PROFITS
 - PURCHASE CAPITAL (INVESTMENT OR CAPITAL FORMATION)
 - RESPONSIBLE FOR SPENDING ON CAPITAL GOODS (I)

FIRMS

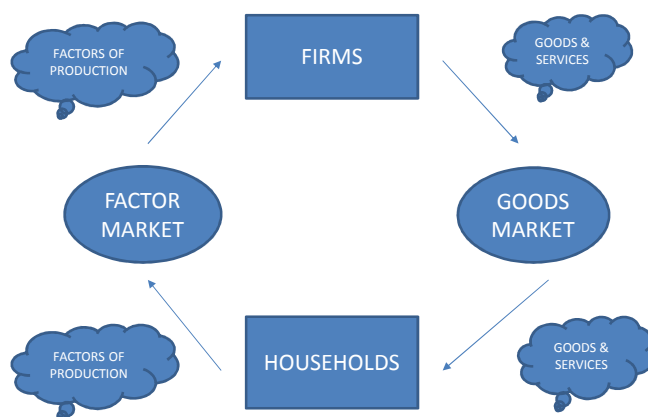
↳ BUY CAPITAL, LABOUR

↳ PRODUCE GOODS

↳ SELL TO CONSUMERS

LEARNING UNIT 3

CIRCULAR FLOW OF GOODS AND SERVICES



LEARNING UNIT 3

CIRCULAR FLOW OF INCOME AND SPENDING

