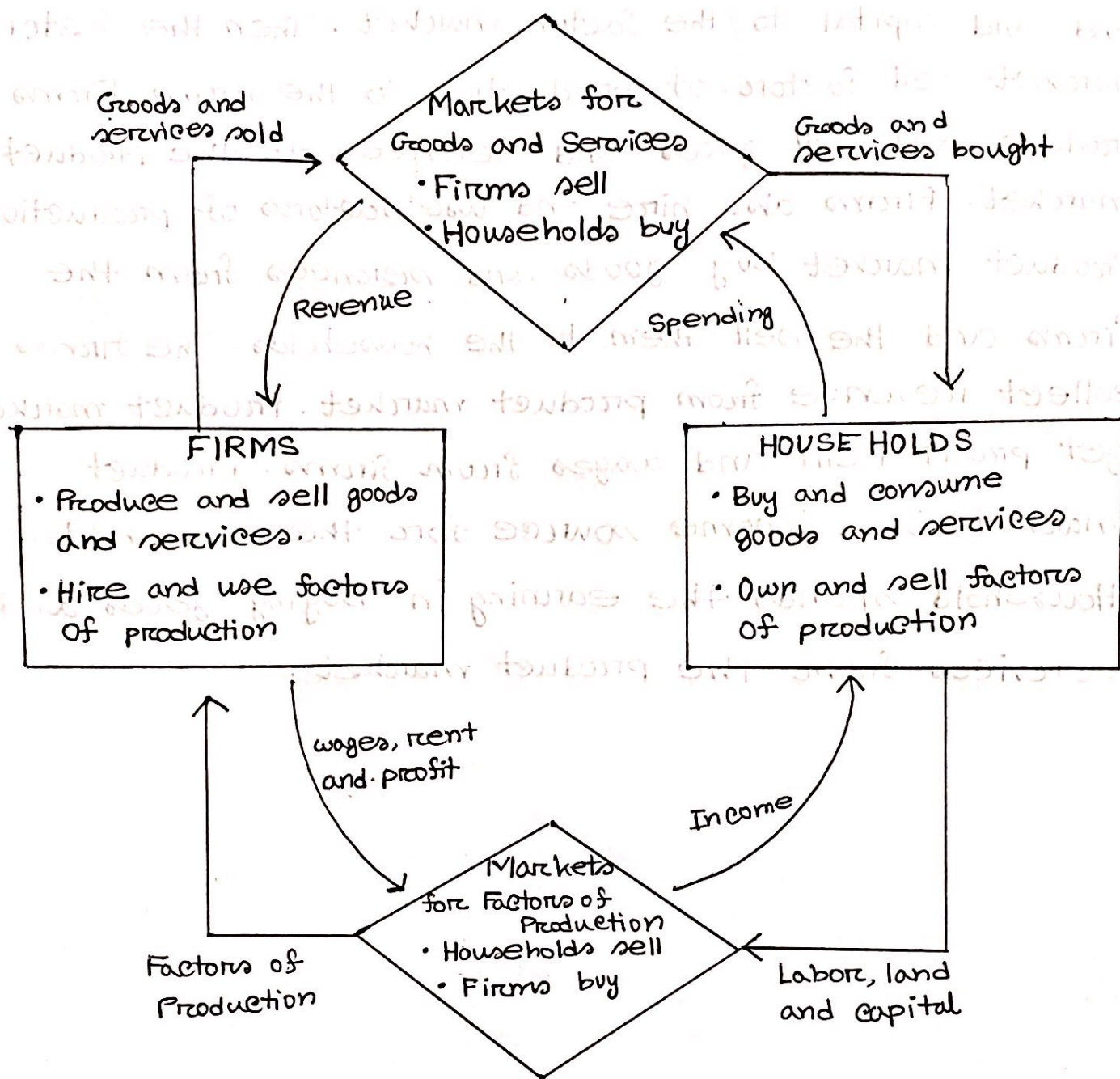


## # Circular flow diagram



### The Circular Flow:

The diagram is a schematic representation of the organization of the economy. Decisions are made by households and firms. Households and firms interact in the markets for goods and services (where households are buyers and firms are sellers) and in the markets for the factors of production.

Households buy and consume goods and services from the product market and own and sell labor, land and capital to the factor market. Then the factor market sell factors of production to the firms. Firms produce and sell goods and services to the product market. Firms also hire and use factors of production. Product market buy goods and services from the firms and then sell them to the households. The firms collect revenue from product market. Product market get profit rent and wages from firms. Product market is a income source for the households. Household spends the earning in buying goods and services from the product market.

