

Households, firms and government are interdependent in a market economy. Resources, goods and services, and money constantly flow in a market economy.

**The interaction of households, firms, and the government are referred to as the circular flow of economic activity:**

**Households, owners of the factors of production, sell these resources to firms.**

**Firms use the resources to produce goods and services that households want.**

**Households use the money from the sale of resources to purchase goods and services.**

**Firms use the money from the sale of goods and services to buy more productive resources.**

**Government taxation policies and regulations may speed up or slow down the flow of resources, goods and services, and money in a market economy.**

The student will demonstrate knowledge of the United States market economy by e) illustrating the circular flow of economic activity.