

TASK 12.3



Business Plan

TWO SECTOR CLOSED ECONOMY HOUSEHOLDS AND BUSINESS SECTOR

A closed economy is exactly the same as a business. We are going to start our studies by looking at a two-sector closed economy, i.e. looking at the households and the business sector.

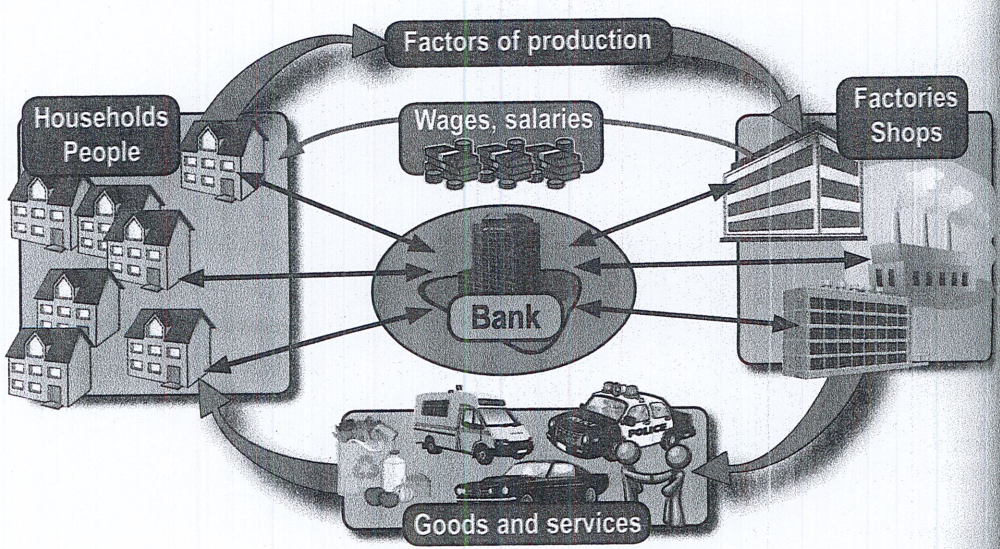
HOUSEHOLD SECTOR

- This includes everyone, all people seeking to satisfy unlimited wants and needs.
- They are the primary economic participants because they are the owners of the four factors of production
- Households are the major consumers of economic goods and services.

FIRMS/BUSINESS SECTOR

- This includes all the businesses / firms that undertake the task of combining resources to produce goods and services.
- This sector does the production.

CIRCULAR FLOW IN A TWO-SECTOR CLOSED ECONOMY



REAL AND MONEY FLOWS – TWO SECTOR CLOSED ECONOMY

- **REAL FLOWS:**
 - Factors of production flow from the owners (households) to producers via the factor markets.
 - Goods and services flow from the producers via the goods markets to households and other users of goods and services.
- **MONEY FLOWS:**
 - Factor remuneration represents the expenditure of producers and the income of households (wages, rent, interest and profit).
 - Consumption expenditure represents the expenditure of households and the income of producers.

TASK 12.4



Two sector economy

In groups study the diagram on the previous page which shows the flow of money in a two-sector closed economy. Discuss the 'flow of money' using the following questions as a guide:

- 12.4.1 What do you understand by the terms household and businesses?
- 12.4.2 Why is the bank in the middle?
- 12.4.3 What are the factors of production?
- 12.4.4 What impact do these factors of production have on the economic cycle?
- 12.4.5 What do goods and services refer to?
- 12.4.6 What impact do these goods and services have on the economic cycle?
- 12.4.7 Discuss how individuals and businesses contribute to wealth creation.

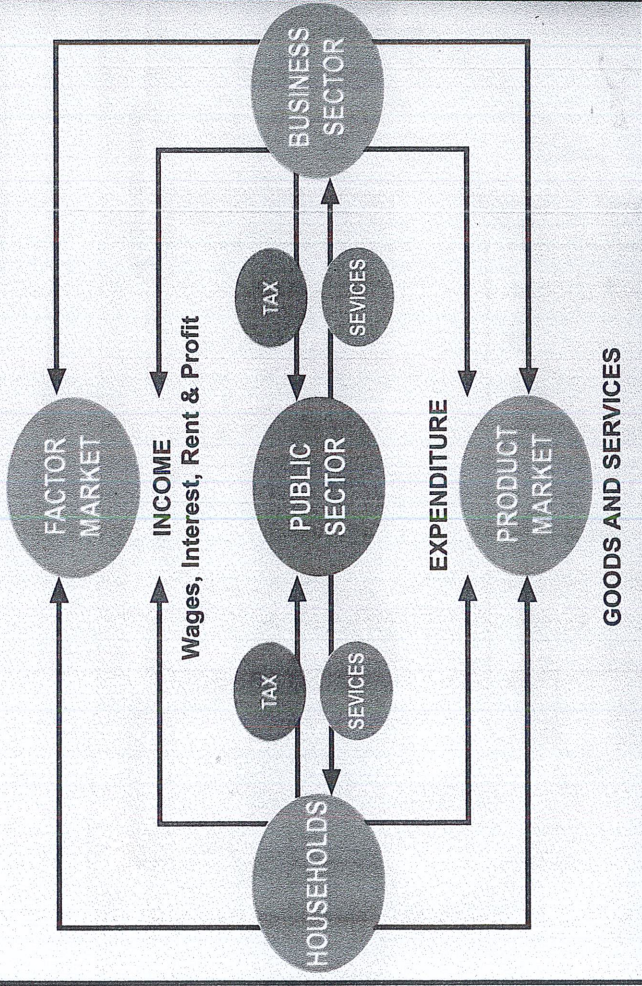
SUMMARY OF THE CIRCULAR FLOW IN A TWO SECTOR CLOSED ECONOMY:

- The households provide the factors of production, i.e. the labour, raw materials capital and entrepreneurship.
- Borrowed capital is obtained from the bank.
- The businesses or factories make the goods or services which are then sold back to the households to satisfy their needs.
- The households use their rewards for the factors of production in order to buy these goods and services.
- As there are unlimited wants and needs households will continually be looking to buy goods and services.
- The factories or businesses will, therefore, have to keep making these goods or services.
- The households will have to keep providing their factors of production, e.g. labour in order to earn their wages to buy more products.
- The business will continually need these factors of production in order to make the necessary goods and services.

THREE SECTOR CLOSED ECONOMY, INCLUDING THE PUBLIC SECTOR

FACTORS OF PRODUCTION

Labour, Capital, Natural Resources & Entrepreneurial Skills



TASK 12.6

Three sector market

Study the above diagram and then answer the following questions:

- 12.6.1 What do you understand by the factor market?
- 12.6.2 What do you understand by the product market?
- 12.6.3 What do you understand by the public sector?
- 12.6.4 Make a list of any factors your household provides to the economy.
- 12.6.5 Make a list of any benefits your household obtains from the public sector.
- 12.6.6 How does your household benefit from the businesses?

TASK 12.7

Matching items

Choose a description from COLUMN B that matches an item in COLUMN A. Write only the letter (A – K) next to the question number (10.7.1 – 10.7.10).

COLUMN A	COLUMN B
12.7.1 Wants	A It is generally accepted as payment.
12.7.2 Markets	B A good job and a luxury car.
12.7.3 Services	C Where goods are offered for sale.
12.7.4 Needs	D Consists of firms and production units.
12.7.5 Circular flow	E Labour, minerals and machines.
12.7.6 Production	F Necessities like food and shelter.
12.7.7 Resources	G Consists of an individual, family or any group of people who have a joint income.
12.7.8 Money	H Legal advice from an attorney.
12.7.9 Government	I The creation of goods and service.
12.7.10 Business Sector	J It shows how the different parts of the economic system fit together.
	K It establishes a framework within which the economy operates.

TASK 12.8

Multiple choice questions

Various options are provided as possible answers to the following questions. Choose the correct answer and write only the letter (A, B or C) next to the question number.

- 12.8.1 In the two sector circular flow diagram:
 - A Households sell goods and services to business firms.
 - B Households sell resources to business firms.
 - C Business firms sell resources to households.
- 12.8.2 Which of the following statements is true?
 - A Households buy resources from business firms.
 - B Households sell products to business firms.
 - C Households sell resources to business firms.
- 12.8.3 The remuneration for labour, capital, natural resources and entrepreneurial skills are respectively:
 - A wages, rent, interest and profit.
 - B wages, interest, rent and profit.
 - C wages, profit, interest and rent.

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