

6.4: Reading- The Flow of Inputs and Outputs

The Flow of Inputs and Outputs

Many of the factors of production (or resources) are provided to businesses by households. For example, households provide businesses with labor (as workers), land and buildings (as landlords), and capital (as investors). In turn, businesses pay households for these resources by providing them with income, such as wages, rent, and interest. The resources obtained from households are then used by businesses to produce goods and services, which are sold to the same households that provide businesses with revenue. The revenue obtained by businesses is then used to buy additional resources, and the cycle continues. This circular flow is described below in Figure 1, which illustrates the dual roles of households and businesses:

- Households not only provide factors of production (or resources) but also consume goods and services.
- Businesses not only buy resources but also produce and sell both goods and services.

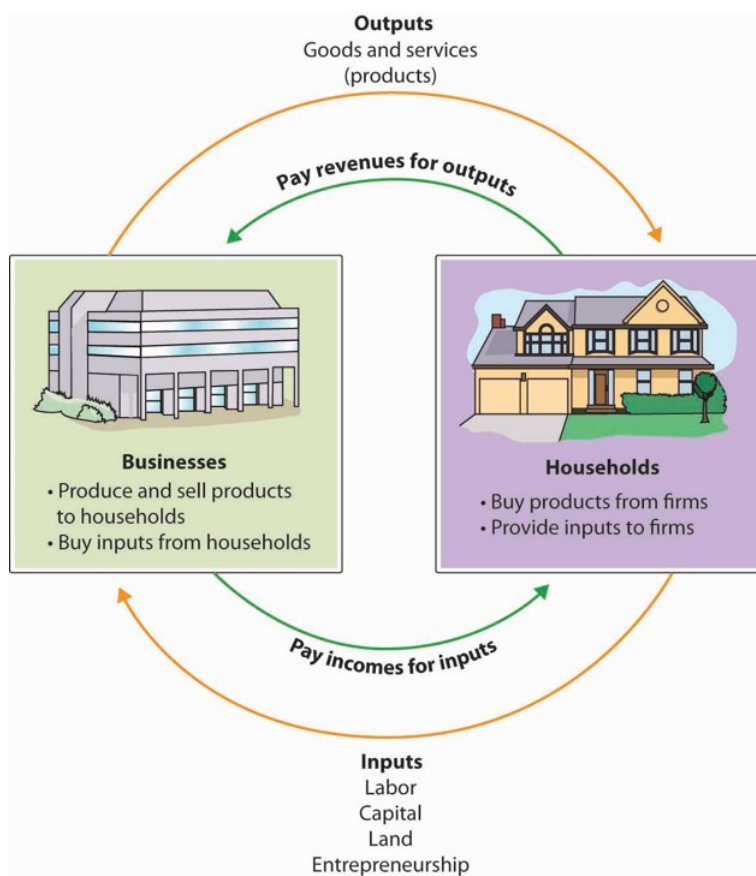


Figure 6.4.1: The Circular Flow of Inputs and Outputs.

The Questions Economists Ask

Economists study the interactions between households and businesses and look at the ways in which the factors of production are combined to produce the goods and services that people need. Basically, economists try to answer the following three sets of questions:

1. *What goods and services should be produced to meet consumers' needs?* In what quantity? When should they be produced?
2. *How should goods and services be produced?* Who should produce them, and what resources, including technology, should be combined to produce them?
3. *Who should receive the goods and services produced?* How should they be allocated among consumers?

The answers to these questions depend on a country's economic system—the means by which a society (households, businesses, and government) makes decisions about allocating resources to produce products and about distributing those products. The degree to which individuals and business owners, as opposed to the government, enjoy freedom in making these decisions varies according

to the type of economic system. We will explore the various types of economic systems and how each system answers these questions in a module on economics and economic systems.

Check Your Understanding

Answer the question(s) below to see how well you understand the topics covered in this section. This short quiz does **not** count toward your grade in the class, and you can retake it an unlimited number of times.

Use this quiz to check your understanding and decide whether to (1) study the previous section further or (2) move on to the next section.

<https://assessments.lumenlearning.com/assessments/151>

Contributors and Attributions

CC licensed content, Original

- Revision and adaptation. **Authored by:** Linda Williams and Lumen Learning. **License:** *CC BY-NC-SA: Attribution-NonCommercial-ShareAlike*

CC licensed content, Shared previously

- An Introduction to Business. **Authored by:** Anonymous. **Provided by:** Anonymous. **Located at:** <http://2012books.lardbucket.org/books/an-introduction-to-business-v1.0/s05-03-what-is-economics.html>. **License:** *CC BY-NC-SA: Attribution-NonCommercial-ShareAlike*

6.4: Reading- The Flow of Inputs and Outputs is shared under a [not declared](#) license and was authored, remixed, and/or curated by LibreTexts.