



In Sync with Circular Flow | Lesson Plan

How does money keep moving through an economy, and why does each part of the system matter?

Students will understand that the economy depends on the continuous exchange of money, resources, and goods between households, businesses, government, and financial institutions.

Learning Objectives:

- Identify the key components of the circular flow model: households, businesses, government, financial institutions, resource market, and product market.
- Describe the roles of the resource and product markets in connecting buyers and sellers.
- Explain how households provide factors of production and receive income in return.
- Use examples to illustrate how money, goods, and services move through the economy.
- Analyze how government and financial institutions affect the flow through taxes, services, and loans.
- Apply the model to real-world situations to understand economic interdependence.

Key Vocabulary:

- **Factors of Production:** The basic resources used to produce goods and services: land, labor, capital, entrepreneurship, and knowledge.
- **Households:** People who provide the factors of production—like land, labor, and capital—to businesses in exchange for income, then use that income to buy goods and services.
- **Businesses:** Companies that use factors of production to make goods and services, earn revenue by selling them, and then use that revenue to pay for more factors of production.
- **Resource Market:** Where households provide the factors of production to businesses, who pay wages, rent, or interest in return.
- **Product Market:** The place where businesses sell finished goods and services to households in exchange for revenue.
- **Government:** The part of the economy that collects taxes from households and businesses and redistributes money through subsidies and transfer payments.
- **Financial Institutions:** Organizations such as banks that accept deposits, pay interest, and provide loans to households, businesses, and the government.

Educational Standards: CCRA.L.1, CCRA.L.2, CCRA.L.4, CCRA.SL.1, CCRA.SL.2

Academic Subject Areas: Financial Literacy, Life Skills, Economics

What You'll Need

- Video: *Cash Course: In Sync with Circular Flow* (Watch [Here](#))

Scan to watch episode:

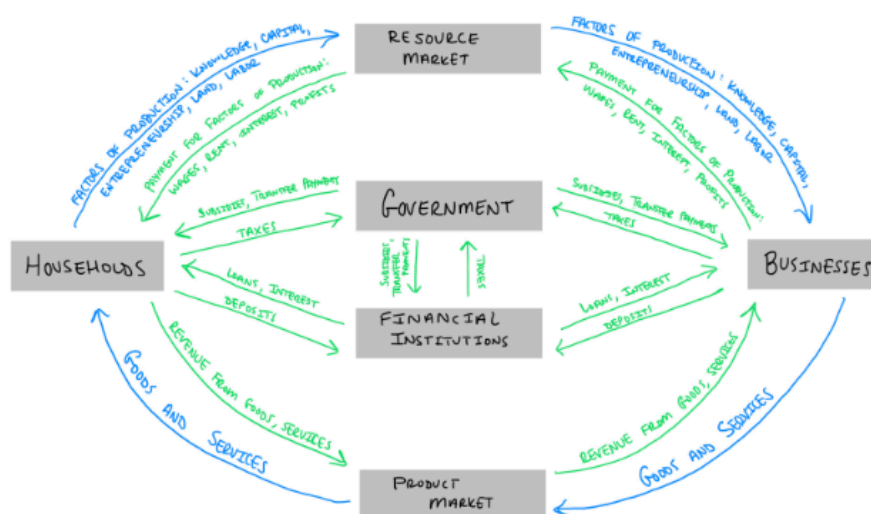


- Worksheet: *Cash Course: In Sync with Circular Flow* (Click [Here](#))
- Notebook paper for each student

Lesson Plan (45 minutes)

Warm Up: (15 minutes)

1. Hand out note-taking sheets and explain that today's lesson will explore the **Circular Flow Model**—a simple map of how money moves through the economy and how people, businesses, banks, and the government are all connected
2. Begin by asking students to imagine they're part of a community where everyone has a job and a role: someone grows food, someone bakes bread, someone builds houses, someone runs a bank. Ask: *"What would happen if no one spent their money? Or if no one had a job to earn money in the first place?"* Let students offer ideas, for example: people couldn't buy stuff, stores would close, or there wouldn't be enough jobs.
 - **Note to teachers:** Long ago, people lived off the land and traded directly—some communities didn't need money like we do today. But in our modern economy, where everyone depends on others for goods and services, money keeps the system moving. Feel free to omit this information, but have it in your back pocket in case students bring it up.
3. Write **Circular Flow of Money** on the board and explain that economists use this model to show how the economy works like a giant loop. Money goes from households to businesses, back again, and through other important parts like banks and the government.
4. On the board, draw or project a simple circular flow diagram with arrows connecting Households → Resource Market → Businesses → Product Market, forming a loop, then put Government and Financial Institutions inside the loop. For example:



- **Note to teachers:** In more advanced versions of this model, economists include the **foreign sector** to show how money flows in and out of the country through imports and exports. We're focusing on the basic version today to keep things simple, but just know that in the real world, global trade also plays a role in how money moves. Households and businesses in our model can just as easily be foreign. There is no true difference in the role they play in the economy.
5. Briefly explain each part with a relatable example:
 - **Households:** People who work jobs and buy stuff (like us!).
 - *Example: Your family brings their knowledge and labor to the market and uses their paycheck to buy groceries, clothes, or pizza.*
 - **Businesses:** Stores or companies that sell things and pay workers.
 - *Example: A local bakery pays workers to make cupcakes and sells them to customers.*
 - **Government:** Collects taxes, but also helps with services and support.
 - *Example: Your city collects taxes to pay for road repairs, police, or public schools.*
 - **Financial Institutions:** Organizations that hold savings and give out loans.
 - *Example: A bank keeps your savings safe, pays a little interest, and loans money to someone starting a lawn care business.*
 - **Resource Market:** Where households and workers sell their skills and resources to businesses in exchange for payment; this exchange makes it a market rather than an entity.
 - *Example: A teenager gets hired to mow lawns—that's selling labor in the resource market.*
 - **Note to teachers:** Pause here to explain **Factors of Production**. These are the basic building blocks needed to produce goods and services: **land, labor, capital, entrepreneurship, and knowledge**. Households supply these inputs through the resource market, and businesses purchase them to create goods and services
 - **Product Market:** Where businesses sell goods and services to households.
 - *Example: You buy a new backpack at a store—that's the product market in action*
 6. Ask students: "Where do you think money goes first, and where does it go next?" (No wrong answers; this leads into the video.)
 7. Next, write the Enduring Question on the board: **How does money keep moving through an economy, and why does each part of the system matter?**
 8. Let students know they'll be able to answer this by the end of the lesson, using the video, chart, and discussion.

Watch and Discuss: (15 minutes)

1. Play *Ca\$h Cour\$e: In Sync with Circular Flow*. Encourage active watching—students should be listening for examples of how each part of the economy plays a role in keeping money moving
2. After the video, lead a brief whole-class discussion using the following questions to draw out main ideas:
 - *Who are the key players in the circular flow model? What role does each one play?*
 - *What happens in the resource market? What about the product market?*
 - *How do households and businesses rely on each other?*
 - *What does the government do with the taxes it collects?*
 - *How do banks and other financial institutions help keep the economy moving?*
 - *How did the example of Joe and Beat City help you understand how the circular flow model works in real life?*
3. Optional prompts for deeper engagement:
 - *What surprised you in the video?*
 - *Can you think of another real-world example that fits into the circular flow model?*

Wrap-Up: (15 minutes)

1. Break students into small groups and distribute the worksheet. Students will work together to review vocabulary terms, identify roles in the circular economy, and apply what they have learned to an application question.
2. When finished, review answers as a class. Clarify misunderstandings and ask students to share examples or real-life experiences that illustrate key concepts.
3. Briefly revisit the Enduring Question: How does money keep moving through an economy, and why does each part of the system matter? Invite students to share insights or “aha” moments.
4. Conclude with an exit ticket: Choose one part of the circular flow model and explain why it’s important to the economy. What would happen if it stopped working?

Extension Activity:

Have students research the foreign sector, the additional part of the economy not shown in the basic circular flow model. Then, challenge them to create their own version of the circular flow diagram that includes imports, exports, and how money and goods move between the U.S. and other countries. This activity extends learning for students ready to explore how global trade connects to the broader economy.

Don’t have time for the full lesson? Quick Activity (15 minutes)

Distribute the worksheet and allow students to complete it while they follow along with the video.