

The Market System and the Circular Flow

The study of the main characteristics of the market system is essential, since further topics will rely on the price system and markets as a key factor in determining the answers to the fundamental questions of what to produce, how to produce it, who obtains the output, how to adjust to change, and how to promote progress. A comparison of the market economy to a command economy will direct the discussion as well. The next essential model to learn—the circular flow model— is introduced in this chapter. Study this model carefully. The model will be expanded over the course of study to include more “players” that interact with businesses and households in the marketplace.