PRODUCTIVE SECTORS OF THE ECONOMY

Objectives:

Explain the characteristics of primary, secondary and tertiary sectors, and the interdependence of the different sectors

The Factors of Production – these are the resources that are used in the production process. In economics these are classified as….

Land – all natural resources used in the production process.

Human – this includes **Labour** – people working to produce a commodity (good or service) and **Entrepreneurship** – this is the person / people who are the organizer of resources, who start the businesses that produce commodities.

Capital – this is a human made resource that is used to make other goods and services such as factories, machinery, equipment etc.

A **firm** is one individual business that creates a good or service such as a car firm like Toyota.

An **industry** is all the firms that are involved in the making of the same types of goods and services such as the car industry which includes Toyota, Ford, Holden, Kia, Great Wall, BMW, etc.

Producers can be classified into one of the following sectors of the economy

Broad industry groups:
Sectors of the Economy.

Primary Sector
Extracts raw materials from the land.

Primary Sector Industries:
- farming.
- Fisheries.
- Horticulture.
- Mining.
- Forestry.

Secondary Sector.
Processes raw materials into finished goods or semi finished goods.

Secondary Sector Industries.
- Manufacturing.
- Refining.
- Processing.

Tertiary Sector.
Provision of services to all sectors and consumers.

Tertiary Sector Industries:
- Transport.
- Marketing.
- Finance.
- Communication.
- Accounting.

Primary sector – this consists of producers that **extract raw materials from the land, sea or air.**

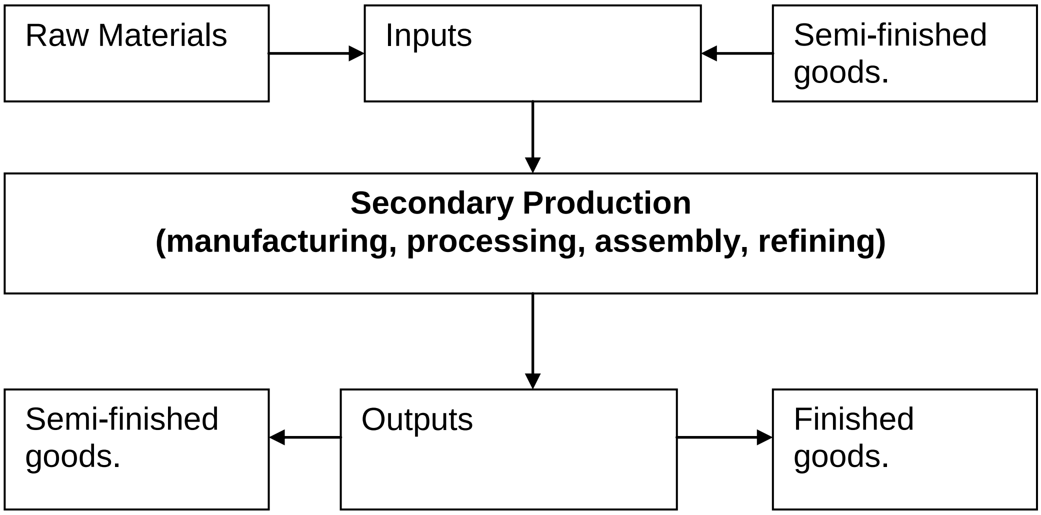
E.g. farming, mining, agriculture and other extractive industries.

Interdependence is a mutual reliance – they rely on each other. It is a two way relationship between sectors of the economy.

Secondary sector – producers in the secondary sector transform raw materials or semi-finished goods into finished or semi finished goods. This may include processing the output of the primary sector.

e.g.

- The fertilizer industry transforms minerals into fertilizer.
- Fruit and vegetables are processed into frozen foods and canned fruit.



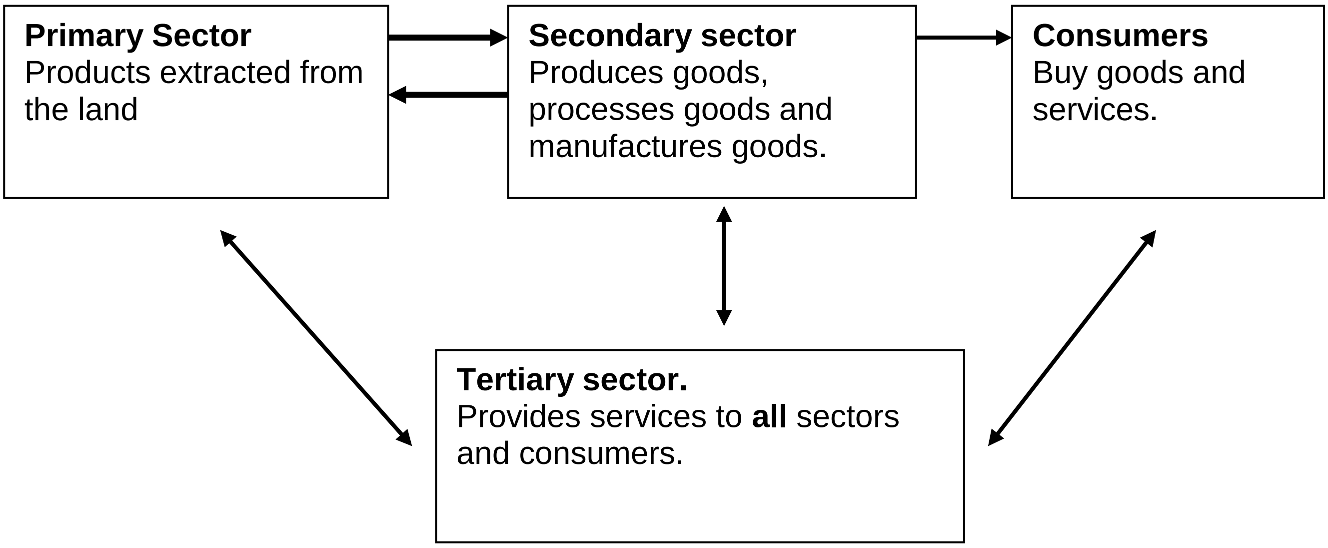
The manufacturing industry also processes raw materials and semi finished goods made locally or overseas.

This sector includes manufacturing and factory production. The raw materials can come from many different sources, from wool (primary sector) for carpet and clothes manufacturing to imported components for computers and other electronic products made in NZ.

Tertiary Sector – this sector provides services to all the sectors and consumers. This includes the provision of electricity, gas telecommunications, financial services, transport, medical services, banking, finance, insurance, retailing etc.

As the New Zealand economy has developed __both consumers and producers have demanded a greater range of tertiary services. The tertiary sector has seen the most changes in recent times. There are now services that never existed in the past e.g. the internet, mobile phone services etc.__

<u>The interdependence of the sectors.</u>



The above diagram shows the interdependence of the different sectors.

Between the primary and secondary sectors______ the primary sector relies on the secondary sector to buy their outputs so that they can be processed into finished goods. The secondary sector relies on the primary sector to supply the raw materials to process. ____________________

____

Between the secondary and tertiary sectors the secondary sector relies on the tertiary sector to distribute their output to consumers. The tertiary sector relies on the secondary sector to supply finished goods to sell. ___________

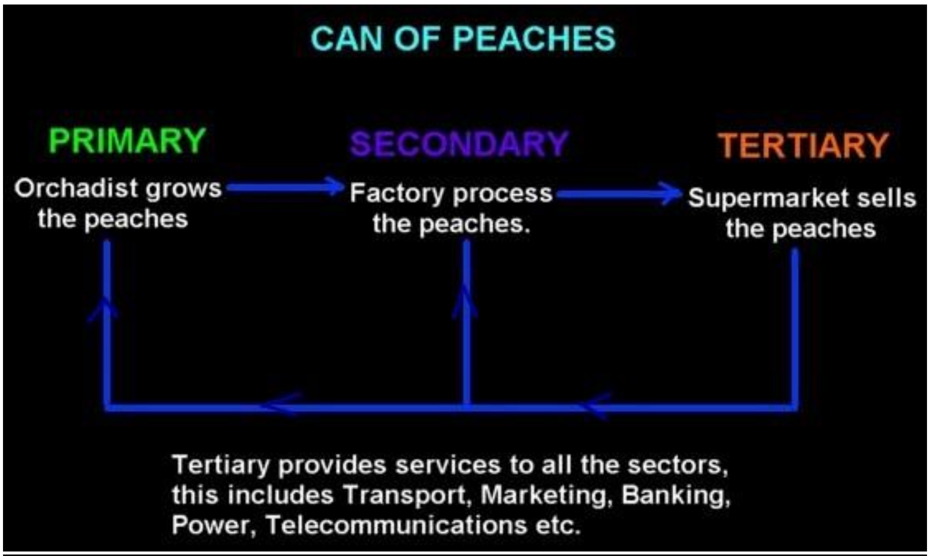
____

Between the primary and tertiary sectors___ the primary sector relies on the tertiary sector to distribute and market their output to both the secondary sector and consumers.

The tertiary sector relies on the primary sector to use their services and provide a source of revenue. ____________

____

Production of a can of peaches



Explanation The diagram shows the interdependence of the sectors. They all rely on each other. The primary sector relies on the tertiary sector and secondary sector to transport and buy their products. The secondary sector relies on the primary sector for its raw materials and the tertiary sector to transport and sell its finished products. The tertiary sector relies on the primary and secondary sectors for a product to sell and for income from business. They all rely on each other they are interdependent.

Activities:

1. Define the following terms:

Primary Sector____

____

____

Secondary sector____

____

____

Tertiary sector____

____

____

2. Use the pictures below to answer the questions that follow.

Name the different sectors shown in the pictures____________________

____

Which order should the pictures go in?____________________________

____

Explain why a boat that catches fish is not a firm in the secondary industry.

____

____

____

____

a) Identify each of the following from the above pictures.

i) One human resource ______________________________

ii) One capital resource ______________________________

iii) One natural resource ______________________________

b) Use the picture to help explain the difference between a firm and an industry.

_______An organisation that is involved in the production of a good or service.They are owned and operated by private individuals. An industry is all firms involved in the production of the same type of good or service._______

____

____

____

____

c) Define the term capital resource.

A MAN MADE GOOD THAT IS USED TO PRODUCE OTHER GOODS AND SERVICES.________________

4. Classify the following activities as Primary, Secondary or Tertiary sectors.

a)Milk processing	b)Doctor
c) Transport	d) Landscaping
e) Extracting coal	f) Grading apples for export
g) Farm tourist holidays	h) Woolen mill
i) Processing vegetables	j) Dairy farm

CIRCULAR FLOW

OBJECTIVES:

By the end of this section you will be able to:-

- Construct a circular flow diagram(s) in real and money terms (this may involve the construction of a circular flow diagram)
- Show and explain the interdependence of households, producers, government, the financial sector and the overseas sector
- Understand the markets inherent in the model, including the finished goods and services market, the resource markets, the domestic money market and the foreign exchange market.

The circular flow model is a diagram/model that shows the interdependence of the different sectors in the economy.

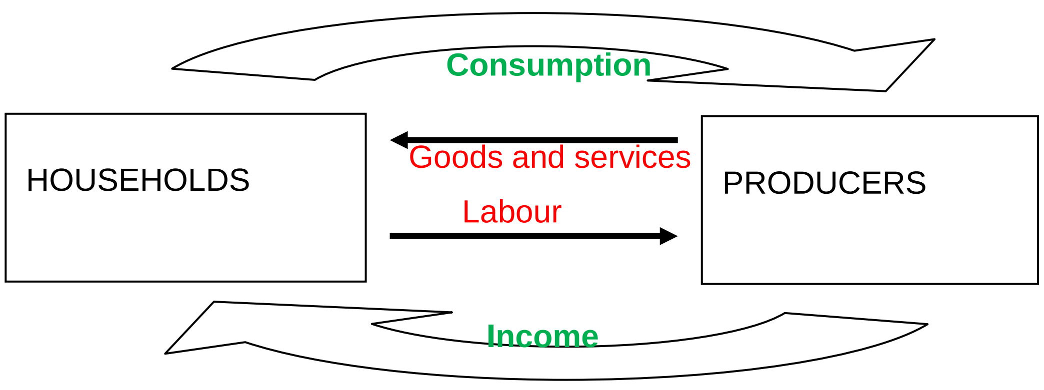
Interdependence is ____________ **a mutual reliance – the sectors of the economy rely on each other.** ____________________________________

We have already looked at a simple circular flow model with the relationship between households and firms / producers.

Households are made up of ____consumers____________ these are people who__purchase / use goods and services.______________.
Firms are made up of Producers these are people / organisations who are involved in the ____**creating / production of commodities.**__________
_____________________________.

Both households and firms are sectors of the economy and the have an interdependent relationship.

The simple circular flow model shows the relationship between consumers (households) and producers (firms).



This simple diagram shows the interdependent relationship between firms and households.

The diagram also shows two types of flows:

REAL FLOWS – these are the flows of the factors of production (___Human resources ________________ and ______Capital______) from households to firms. It is also shows the flow of goods and services (_____Commodities______) from firms to households.

MONEY FLOWS – this is the flow of money within the economy.
In the above diagram there are two money flows shown.
Income- this is the flow which shows the payments made by firms to households for using resources e.g. wages, salaries, dividends etc.
Consumption- this is household spending on goods and services.

REAL FLOWS WILL ALWAYS CORRESPOND WITH A MONEY FLOW.

The real flow that corresponds with the money flow of income is **labour** or human resources.

The real flow that corresponds with the money flow of consumption is

______Commodities – goods and services.______________________.

The diagram also shows the interaction of two of the four markets within the circular flow diagram.

What is a market?

A market is_______a place or situation where an exchange takes place.

____

e.g. ___supermarket, dairy, the plaza, trademe______________

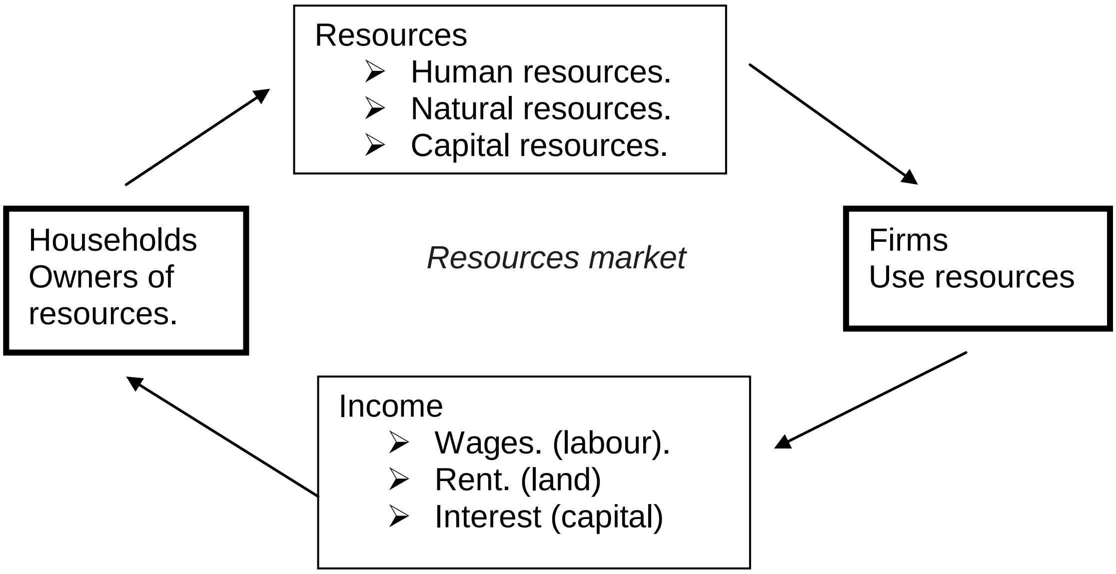
Markets may be small and localised, such as a corner shop or they may be large such as shopping malls and supermarket chains. There are also international markets for products such as oil, wood, cars, dairy products etc. Some of these large international markets will involve multinational corporations that do business with people in many different countries.

The resource market and the finished goods and services market (commodity market).

TYPES OF MARKET

There are four main types of market

- The goods and services market.
- The resource market
- The money market.
- The foreign exchange market.



The **resource market** is where resources are bought and sold

Households own the resources used in production.
Households provide the resources and in return they receive an income___ ________ or a **factor reward.**
The level of income received will depend upon the amount of demand for the resources.

The returns or incomes to owners of the resources are

- Labour______wages, salaries________________________________
- Land________rent____
- Capital______interest_______________________________________

GOODS AND SERVICES MARKET
This is where firms sell_________finished goods and services to consumers.

______**Consumers buy goods and services (commodities) from producers and in return they spend their income (Consumption or consumer spending).**_____________________________________
The flow of money (consumption) from households in return for commodities from producers takes place in the goods and services market.____

Interdependence between households and firms is shown by__

______Households relying on firms for commodities and income, producers / firms rely on households for resources (labour, capital etc) and consumer spending so that they can make a profit. – They rely on each other – they are interdependent.____

____

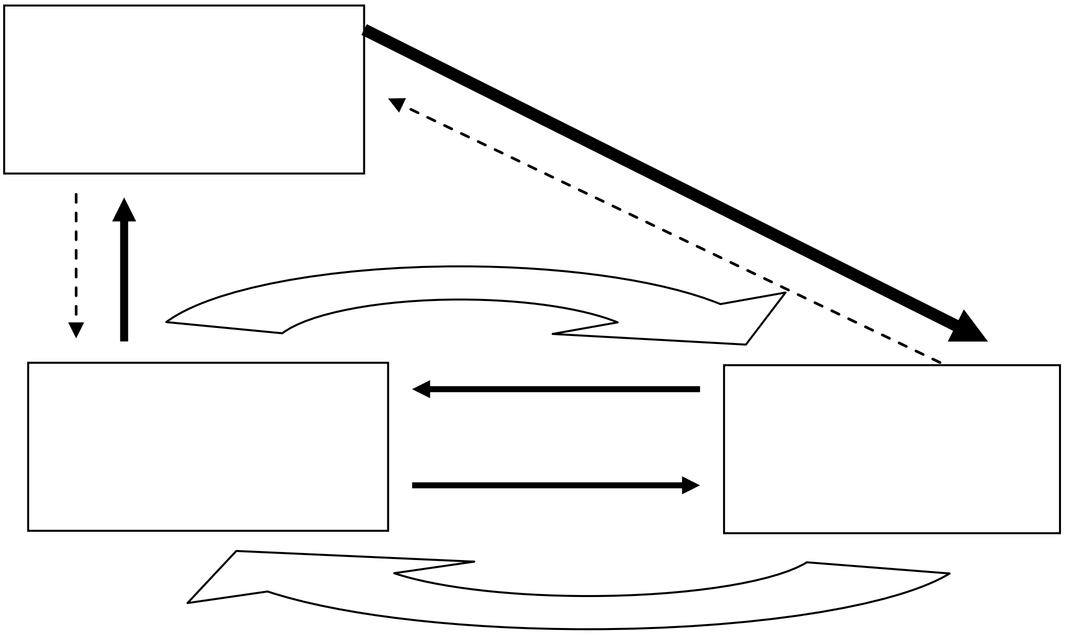
THE FINANCIAL SECTOR

The financial sector includes banks and other financial institutions. They act as intermediaries (go betweens) between households who have savings and producers who require money for investment.

In Economics **investment is**____The buying of capital goods – such as machinery, factories, new technology etc. – It can also be called **VENTURE FINANCE.**____

It is not savings. __**Savings is the putting of excess income into a bank savings account etc. Investment is done by firms. Saving is done by households.**____

____



Savings is a _withdrawal___ of money from the circular flow diagram. This means that the money is taken out of the flow.

Investment is an ___injection_____ of money into the circular flow diagram. This means that the money is put back in.

Both savings and investment are very important to an economy

Investment is the___buying of capital goods and help to create new technology, firms, products etc____

____

____

____

____

Without savings there is no money available for investment.
Savings is not spending money on present consumption but storing it for future use.
Savers generally deposit their money in a financial institution in the financial sector. The savings have been taken out of the main circular flow; they are withdrawals because an increase in household savings will lead to a decrease in consumption and therefore a decrease in the circular flow.

Associated with the financial sector is the money market.

THE MONEY MARKET

The money market connects savers (households who save money), financial institutions (banks etc) and firms.
Money flows from savers to financial institutions and then onto borrowers (which includes firms as they invest and consumers as they spend on credit).
Money flows back from firms to financial institutions when interest is paid and the principal is repaid.
The price of money is the interest rate (%) and is determined by the supply and demand for money.

Interdependence between the financial sector, firms and households.

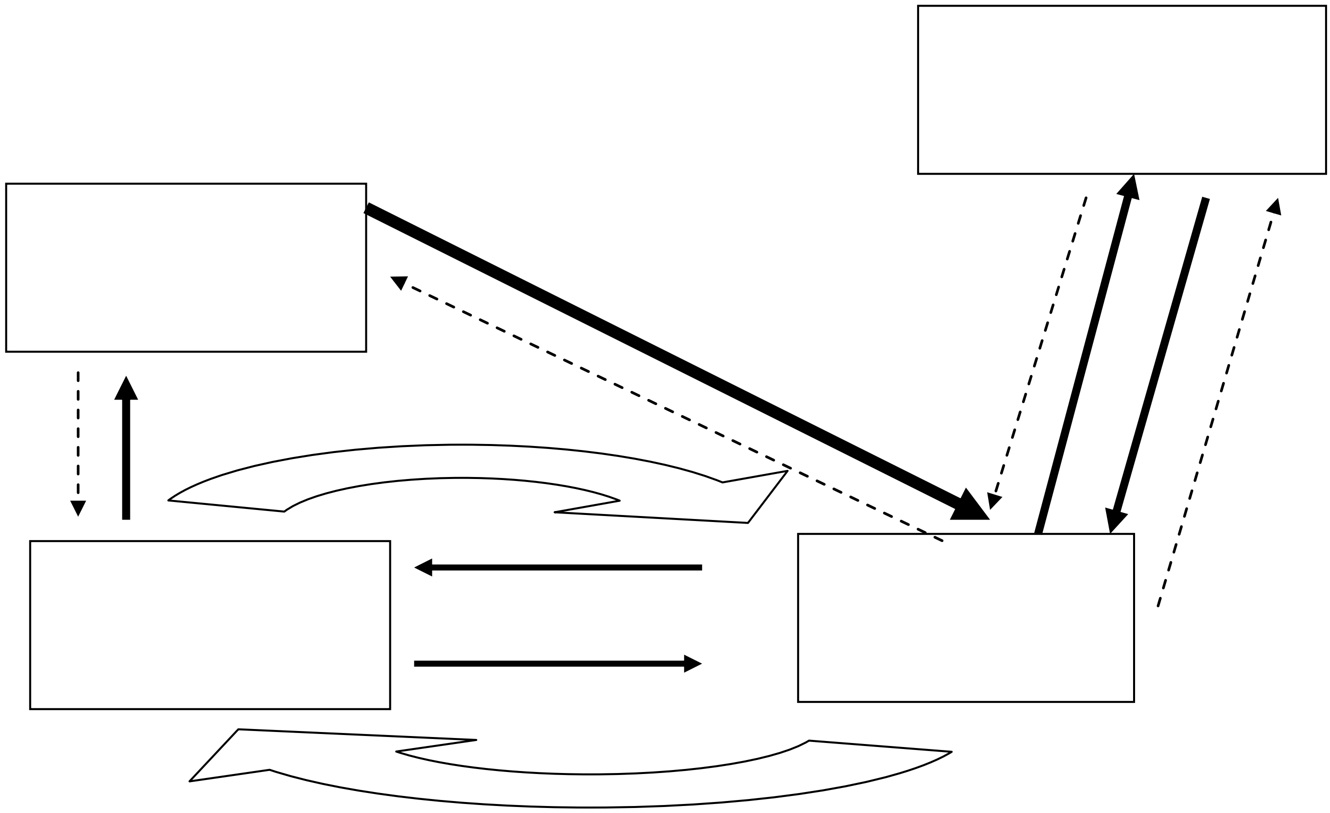
___________The financial sector acts as an intermediary - it takes savings from households and lends the money to firms for investment. Firms rely on households for the money to purchase capital goods (investment) and households rely on the financial sector for interest payments for the money they have saved.__

THE OVERSEAS SECTOR

New Zealand is a small island nation that relies heavily on other countries to buy the products it produces and to get products that we don't produce for ourselves.
Households within NZ want to buy products that have been produced overseas such as cars, video's or even clothes. Local manufacturers also use raw materials or semi finished goods from overseas to produce goods which are then either sold in NZ or sold overseas.
NZ also sells a lot of products overseas. Industries in NZ such as the dairy industry and tourism industry rely heavily on their products being sold overseas.

Products that are sold overseas are **exports** (this is a real flow)**.** The money received from selling the exports overseas is called __export receipts_____ ___________.

Products from overseas that are bought into NZ and then sold are called **imports**(this is a real flow). The money sent overseas to pay for these imports is called ________Import payments__________________________________.



The real flow of **exports** corresponds with the money flow of export receipts.
Exports flow overseas and the money received for selling them comes into NZ.

The real flow of **imports** corresponds with the money flow of import payments ________. Imports come into NZ and the money is then sent overseas to pay for them.

Export receipts are an __INJECTION of money into the economy – exports are sold overseas and money comes into New Zealand in the form of export receipts.

Import payments is a ________WITHDRAWAL of money from the economy. Imports come into New Zealand and the money leaves New Zealand in the form of import payments.

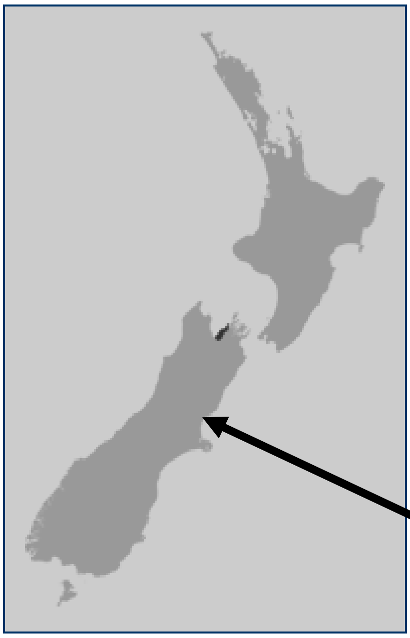
If exports is greater than imports then this means more money is coming into NZ than is leaving. This will mean that NZ is gaining money.
If imports are greater than exports this will mean that money is leaving NZ and NZ is losing money.
The money flows between NZ and the rest of the world is measured in the current account of NZ's Balance of payments.
The Balance of Payments is___**a measure of how much money is leaving NZ compared to how much money is entering NZ. It shows Export Receipts minus Import Payments. The Balance of Payments records if there is a surplus i.e. Export receipts exceed Import payments; or a deficit i.e. Import payments exceed export receipts. If a deficit results then NZ must borrow the difference from overseas.____**

THE FOREIGN EXCHANGE MARKET

This is the market that corresponds with the overseas sector.
Whenever NZ producers trade overseas, money changes hands, but different countries use different currencies (types of money).
For example if Australian__**consumers wish to buy New Zealand Kiwifruit then they will need to pay NZ producers in New Zealand currency (money). They will exchange Australian currency on the Foreign Exchange Market for New Zealand currency to purchase New Zealand Kiwifruit.**___

Like wise if NZ consumers want to buy Japanese cars then__**they will need to change New Zealand currency into Japanese currency. On the Foreign Exchange Market they will change New Zealand dollars into Japanese Yen so that they can pay Japanese producers and purchase the cars.**____________________

Japan wants NZ sheep and so imports sheep.



To buy NZ sheep Japan must pay NZ producers in NZ dollars. This is done through the **foreign exchange market**

Japan exchanges Japanese yen for NZ dollars on the foreign exchange market

Money paid to NZ producers

Foreign exchange market

Interdependence between the overseas sector and other sectors.
Firms rely on the overseas sector for______________________________

a place to export their goods and services to and for income from export receipts. They also rely on the overseas sector for imports.____

The overseas sector relies on firms for_____**import payments for the commodities they have sent to NZ and for Exports (products) that NZ sends to them.**_______________

The NZ economy relies on the overseas sector for___________

Export receipts which brings income into NZ, creates profits for NZ and firms and helps to provide employment for NZ households. It also relies on the overseas sector for imports for the products NZ does not produce________________

If the overseas sector were removed from the economy then __

Then NZ would not export products and so there would be no export receipts and so firm's incomes (profits) would fall. This would lead to a loss of employment and household incomes, consumer spending would fall leading to a further loss in profits – savings would also fall causing investment to fall. There would also be no imports and so households would go without some items._______

THE GOVERNMENT SECTOR

The government is a large part of most mixed economies (an economy consisting of both private and public sectors).
The government provides services such as police, hospitals, schools etc.
The government also provides some private goods and services such as mail and coal.
The government **injects** money into the economy by____________

Subsidies- **These are paid to producers to help them to produce a certain type of good or service the Government believes should be produced more. Subsidies enable firms to produce more, charge a lower price, and thereby sell more. In NZ things like the Royal New Zealand Ballet are subsidised by the Government.**________________________

____

Transfer Payments **These are paid to Households in the form of money transfers like benefits. These are paid to help people who may be sick or in between work.**__________________________________

The government also **withdraws money** from the economy through

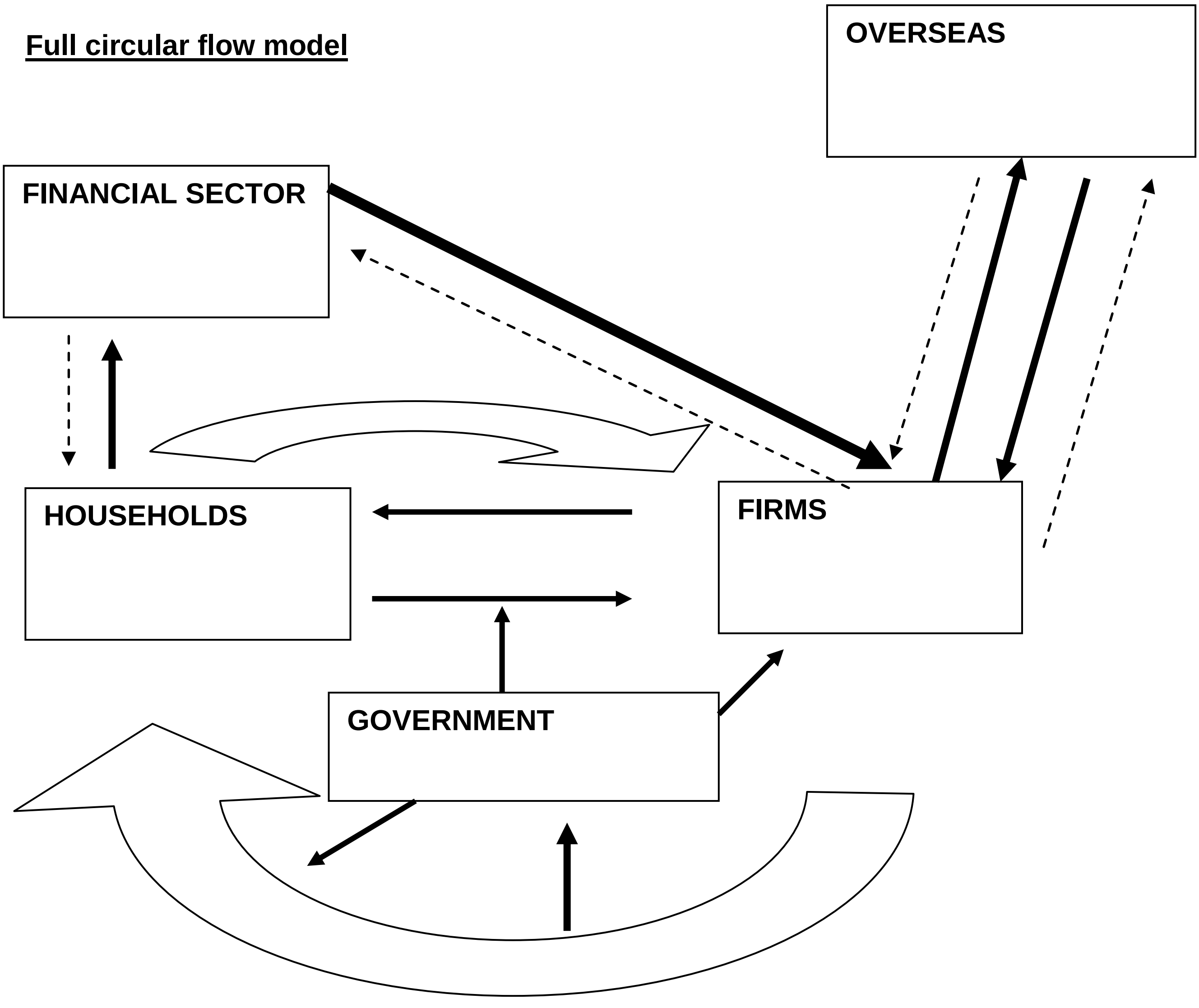
Income tax **is paid by all wage and salary earners. It is mostly paid using P.A.Y.E. (Pay As You Earn) and is automatically deducted from wages. Income after tax is called disposable income.**_______________

Company tax **must be paid on all profits by firms, including banks (the financial sector). These are direct taxes.**____________________

Indirect taxes **like GST also provide money. GST (15% of the price) is paid by producers on all goods and services sold. Indirect taxes also include excise taxes. These are taxes on alcohol, tobacco etc. and are used to try and discourage their consumption.**____

The government will often subsidise (pay money to producers) for them to produce **merit goods,** or if producers are unwilling to provide the good the government will provide the good or service.
A merit good is a good that is considered good for us such as some medicines, vaccinations, education, hospitals. etc.
The government will also sometimes tax a good that they consider to be a **demerit good.**
A **demerit good** is a good that is considered bad for us and consumption is either discouraged or prohibited.
Cigarettes an example of a good the government considers bad for us and they are heavily taxed by the government to increase the price and therefore decrease demand.

Full circular flow model



Transfer payments are payments made to households such as the unemployment benefit, income support, sickness benefit etc.

Government spending - **This is the spending on commodities by the government.**

Government spending is large on services like education, health, roads, police, defence etc.

This must be added to consumer spending to give total spending on goods and services. Government spending comes from money collected as taxes.

If the government increases taxation then the impact will be **an increase in revenue for the government but less disposable income (income after tax) for households. Household spending and savings would fall. Producers would have less income because consumer spending has fallen, profits would fall and so employment would also fall.**

With less savings the financial sector would have less money to lend to firms for investment and so their profits would also fall.

If the government increases government spending then the impact will be **More disposable income (income after tax) for households. Household spending and savings would increase. Firms would have more income because consumer spending will increase, profits will increase and so employment would also increase.**

With more savings the financial sector would have more money to lend to firms for investment and so their profits would also increase.

The circular flow model shows the **interdependence** of the different sectors of the economy.

The money flows of C (consumption) Y (income) S (savings) G (government spending) T (taxation) Tr (transfer payments) X (exports) and M (imports) show us how all the sectors within the economy are interdependent and that any changes to one sector will have an impact on all of the sectors.

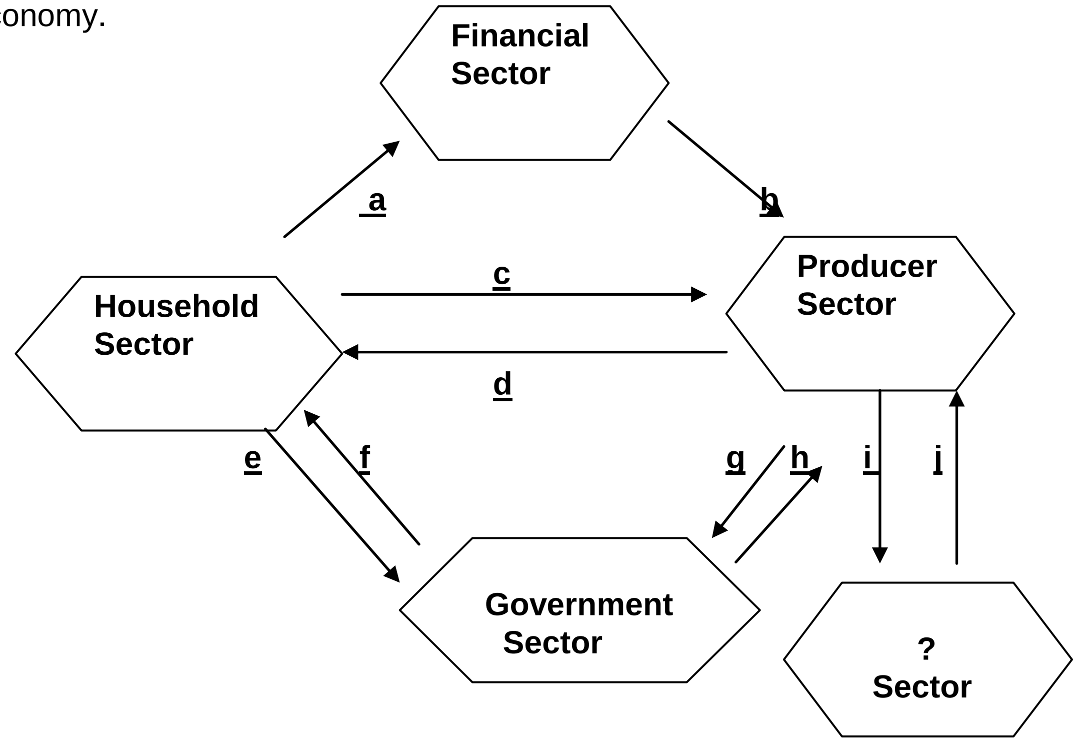
Any injection (increase in the money flow) will have a positive effect.

Any withdrawal (decrease in the money flow) will have a negative effect.

Whenever there is a change in the size of the flows then the whole economy is affected.

CIRCULAR FLOW MODEL PRACTISE

You have been asked to help construct a circular flow diagram showing the interdependence of the five major sectors of the economy.
Use the diagram below to help answer the questions which follow.
The diagram below shows the **money flows** for the five major sectors of the economy.



a) What is the name given to the sector that is not labelled in the diagram above?

b) In the diagram above, identify the money flows represented by the arrows which have letters next to them. Next to the letters below, write the name of the appropriate flow.

a____

b____

c____

d____

e____

f____

g____

h____

i____

j____

2. State one economic consequence on the household sector if:

i) the financial sector was removed.______________________

____

ii) the government was removed.______________________

____

3. Explain how the removal of the overseas sector would affect the total output of the economy. With the removal of the overseas sector exports would disappear and so export receipts would fall, this would mean production would fall and so less labour is needed, this would result in a decrease in household incomes and so both savings and consumer spending would fall. Government tax revenue would fall and so would producer profits due to a decrease in consumer spending.

4. Following the removal of the overseas sector, what would be the likely impact on the proportion of household expenditure spent on necessities compared with luxuries?

   With a fall in income households will buy less luxury goods and spend a greater proportion of their income on necessities.

5. Explain the economic concept of interdependence. Illustrate your answer using an example from the Household and Producer sectors.

   Explanation **Interdependence is a mutual reliance – they rely on each other.**

   Example **Households rely on producers for income and commodities. Producers rely on households for consumer spending and labour. They are mutually reliant.**

6. Name the two main types of tax from which the government gets its revenue.

   Direct tax and indirect tax.

7. Which items in the circular flow model show injections of money into the economy? Export receipts, transfer payments, investment, government spending, subsidies.

   What will be the impact on the following of an injection?

   - Income Will increase as more employment.
   - Consumption As income increases consumption will increase.
   - Employment Consumption increases so production increases so employment increases.

- Government spending Increase in direct and indirect tax so government spending may increase due to increase in tax revenue   OR spending may decrease due to decrease in unemployment and so less spent on transfer payments.____

8. Which items in the circular flow model show withdrawals / leakages of money from the economy? Savings, import payments, indirect tax, direct tax._______

____

What will be the impact on the following of a leakage of money?

- Income____

____

- Consumption____

____

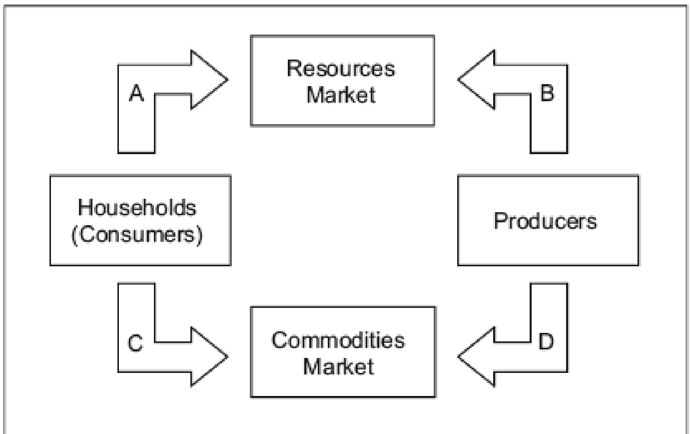
- Employment____

____

Government spending Decrease in direct and indirect tax so government spending may decrease due to decrease in tax revenue   OR spending may increase due to increase in unemployment and so more spent on transfer payments.____

9.

The diagram below shows the relationship between TWO sectors only of the economy. The arrows represent **both** real and money flows.



The Markets between Households and Producers

(a) (i) State ONE **other name for commodities.** ___________________

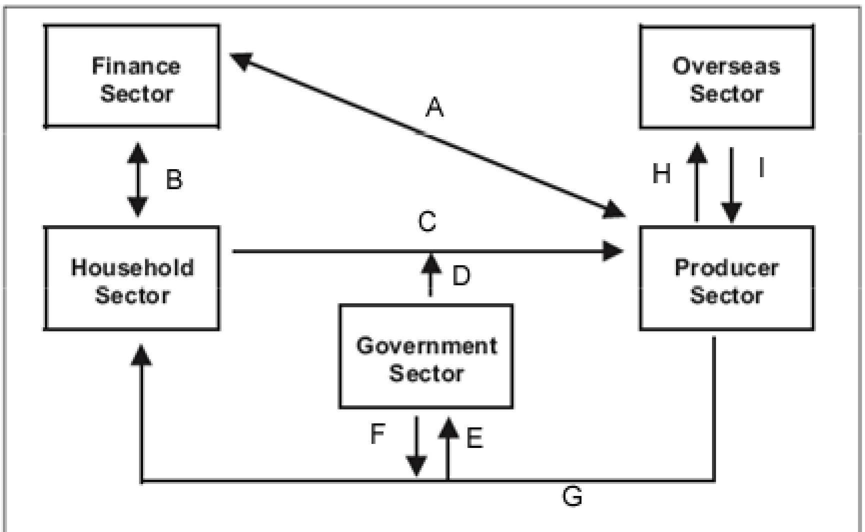
(ii) Give ONE example of a factor reward paid for human resources. _

____

____

(iii) Which flow best matches each of the following descriptions? Name the appropriate arrow by writing a letter in the flow column.

Description	Flow
Payments of Wages and Salaries	
Land, Labour and Capital	
Consumption Expenditure	



The Circular Flow of Economic Activity (Money Flows)

a) Name the flows in the above diagram

a______________________________

b______________________________

c______________________________

d______________________________

e______________________________

f______________________________

g______________________________

h______________________________

I______________________________

(b) If producers increase the level of payment for human resources, it may **NOT** affect the level of consumption expenditure. Explain how by referring to the circular flow of economic activity above. ____________________

____

____

____

The New Zealand Government has a central role in the circular flow of economic activity.

(a) (i) Give ONE **other** name for the government sector. ________________

____

(ii) Give ONE example of an indirect tax. ________________________

____

(b) The Government makes **transfer payments** by taking money from some parts of the economy and giving it to others. Explain how an increase in unemployment benefits may affect any sector other than households or government. ______________________________

__With an increase in benefits household income will increase, this will mean that they can now afford to spend more on goods and services. This will increase producers profits and so production increases leading to an increase in employment and more income for households.__ ______________

(c)

The Otago Peninsula is a growing tourism destination for overseas visitors. It is home to an abundance of wildlife, including the Royal Albatross, and both the Yellow Eyed (Hoiho) and Little Blue penguins, as well as Larnach's Castle.

(a) Explain how New Zealand **households** can benefit from increased tourism by referring to the circular flow of economic activity.____ __With increase number of tourists spending will increase creating jobs and so employment increase and household incomes increase.__ ______________________

____

(b) Explain how the foreign exchange market (FOREX) operates by referring to the **money flows** between New Zealand tourism operators, such as Larnach's Castle, and overseas visitors. ________ __The FOREX market is where overseas currency can be exchanged for NZ currency. If *tourists are coming to NZ they need to exchange their currency for NZ's currency – this is done on the FOREX market. They then spend this money on NZ tourism services. This is export receipts paid to NZ firms.*__ ______________________

c) Name two **injections** into the circular flow.
i)________________________________
ii)________________________________
Name two **withdrawals** from the circular flow.
i)________________________________
ii)________________________________

Study the circular flow diagram below and answer the questions that follow.

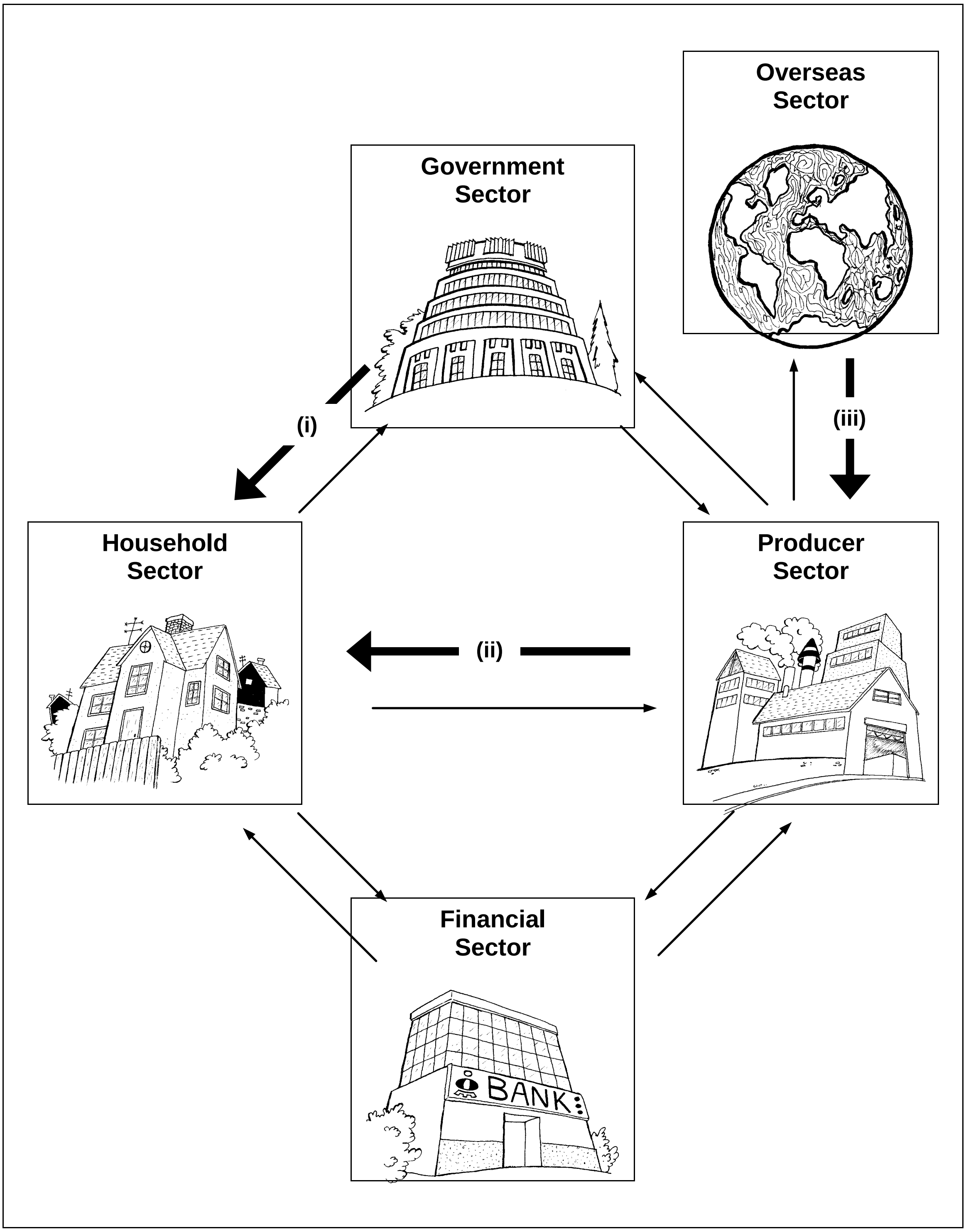


Fig. 1

(a) Name the money flows in Fig. 1 labelled (i), (ii) and (iii).__________________

(b) Name TWO real flows that could be added to Fig. 1, and state which two sectors these real flows would be between.

(1) Real flow:
Between the __________________ sector and
the____________________ sector.

(2) Real flow:
Between the __________________ sector and the ____________________ sector.

(c) Classify (i)–(iv) in the table below into the correct sector by putting a tick in the appropriate column. The first one has been done for you as an example.

	Household	Producers	Government	Financial	Overseas
Example: *A man doing his grocery shopping.*	✓				
(i) A carpet manufacturer in Australia					
(ii) WestpacTrust bank					
(iii) Telecom					
(iv) Ministry of Economic Development					

(d) Describe how the financial sector and the household sector are interdependent.____

QUESTION TWO
Read the newspaper extract below and answer the questions that follow.

Manufacturers Cutting Back Production
Recent data collected by Statistics New Zealand shows that manufacturers are reducing their production in response to a decline in the market. Miss E. Connor Metrixs, a Statistics New Zealand employee, said that cutbacks by manufacturers will affect other sectors of the economy.

State and fully explain ONE impact upon each of the sectors listed below as a result of manufacturers cutting back production.

(a) Government sector ___**With a decrease in production there will be less goods sold and so less revenue from GST for the government.**______________

(b) Household sector _____**With less production there will be less goods and services produced and so less labour is needed meaning household incomes will fall.**____________________________

QUESTION THREE
Read the newspaper extract below and answer the questions that follow.

Government Cuts Income Tax
The government announced today that it will reduce income tax rates from April 1 2003. This news was well received by both consumers and business leaders. The tax cuts are expected to have a significant effect on the economy.

(a)Explain the likely effect of the proposed income tax cuts on the market for finished goods and services **with a decrease in income tax household disposable incomes will increase leading to increased spending on goods and services.**___________

(b) Explain the likely effect of the proposed income tax cuts on the markets for resources.______with an increase in consumer spending, producers will increase production, leading to an increase the demand for resources such as labour.

(c)As a result of the effects you have identified in (a) and (b) above, outline the flow-on effects for households, producers and the government.________

____

______________Because of the increase in demand for labour, household income will increase, with the increase in income the government will receive more in direct tax. Also because of the increase in employment, transfer payments will decrease. With the increase in household incomes, firms will also receive more income from consumer spending. ________

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QUESTION FOUR

a) Name the corresponding flow associated with investment. Interest ______.

b) Explain how an increase in interest rates could have an impact on the foreign exchange market. **With an increase in interest rates more overseas people will save money in NZ and so the NZ dollar will increase in value (appreciate) making NZ's exports more expensive.**

c) What will the impact be of an increase in interest rates on

The financial sector. **Increase profits** ______________________________

____

Firms **Have to pay more for investment and less exported overseas so production and profit will fall.**______________________________________

Households__ **firms produce less so less jobs and so incomes will fall, also have to pay more for money they have borrowed.**________________

The government sector. Less profits and income so less tax revenue._____

____

The overseas sector **imports become cheaper due to NZ dollar appreciating so overseas is better off.**___________________________

c) Explain the overall impact in the economy of an increase in interest rates.

____

___________ **With an increase in interest rates the economy may be worse off as there will be less investment and export receipts in the economy. Producers profits and production fall leading to a loss in employment. This will lead to increased government spending on transfer payments but less government revenue from tax.**

Question Five

a) Household's pay ___________________________tax to the government.
b) Firm's pay ___________________ tax to the government.
c) Firm's give ___________________ to households.
d) Spending on goods and services by households is called______________. This money flows to ___________ which becomes there revenue (income).
e) Income not spent is called___________________.
f) Investment is done by__________ when they buy ___________________. The cost of investment is the ________________ paid to the financial institution. Another name for investment is _____ ___________________.
g) Households provide ___________ to firms. These are L______________, L__________, C_______________ and E____________________________.
h) The real flow that corresponds with consumption is ___________________.
i) The government gives households ________________________________ __________ e.g. DPB, Income support.
j) When a NZ firm buys a machine or equipment from overseas the money flows _______________________ and is called _____________________ ____________________________.
k) When NZ sells lamb or beef overseas then NZ firms earn _____________ __________.

Question Six.

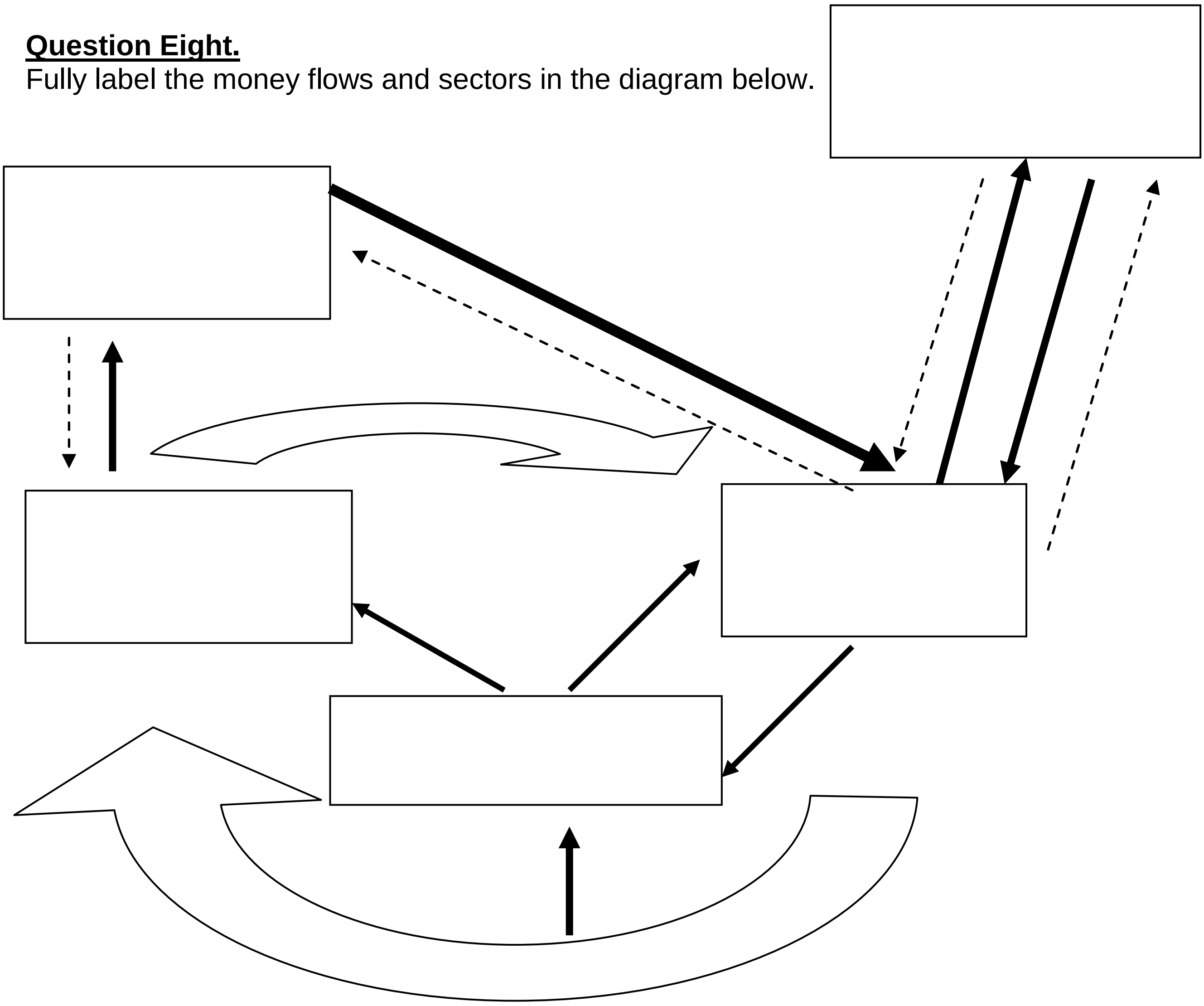
a) The goods and services market is where firms provide _households_____ with goods and services in exchange for_consumer spending___________.
b) Households spend on goods and services (consumption) to firms_______.
c) The cost of investment to firms is the interest paid to the financial sector. If the interest rate increases then firms will invest less and buy less capital goods. This will mean the future production will decrease and employment may also decrease_____.

Question Seven.

Which flow in the circular flow diagram would the following be?

a) The sale of honey to Japan_________________________.
b) Income earned from the sale of lamb to China_______________________.
c) The buying of a new car by a teacher_______________________________.
d) G.S.T.________________________.
e) A firm buying new machinery______________________.
f) Building a new school______________________________.
g) Wages_______________________.
h) Payment made for cars from Japan_________________________________.
i) P.A.Y.E.____.
j) A person receiving the DPB_____________________________________.

Question Eight.
Fully label the money flows and sectors in the diagram below.



Which real flow corresponds with the following money flows?

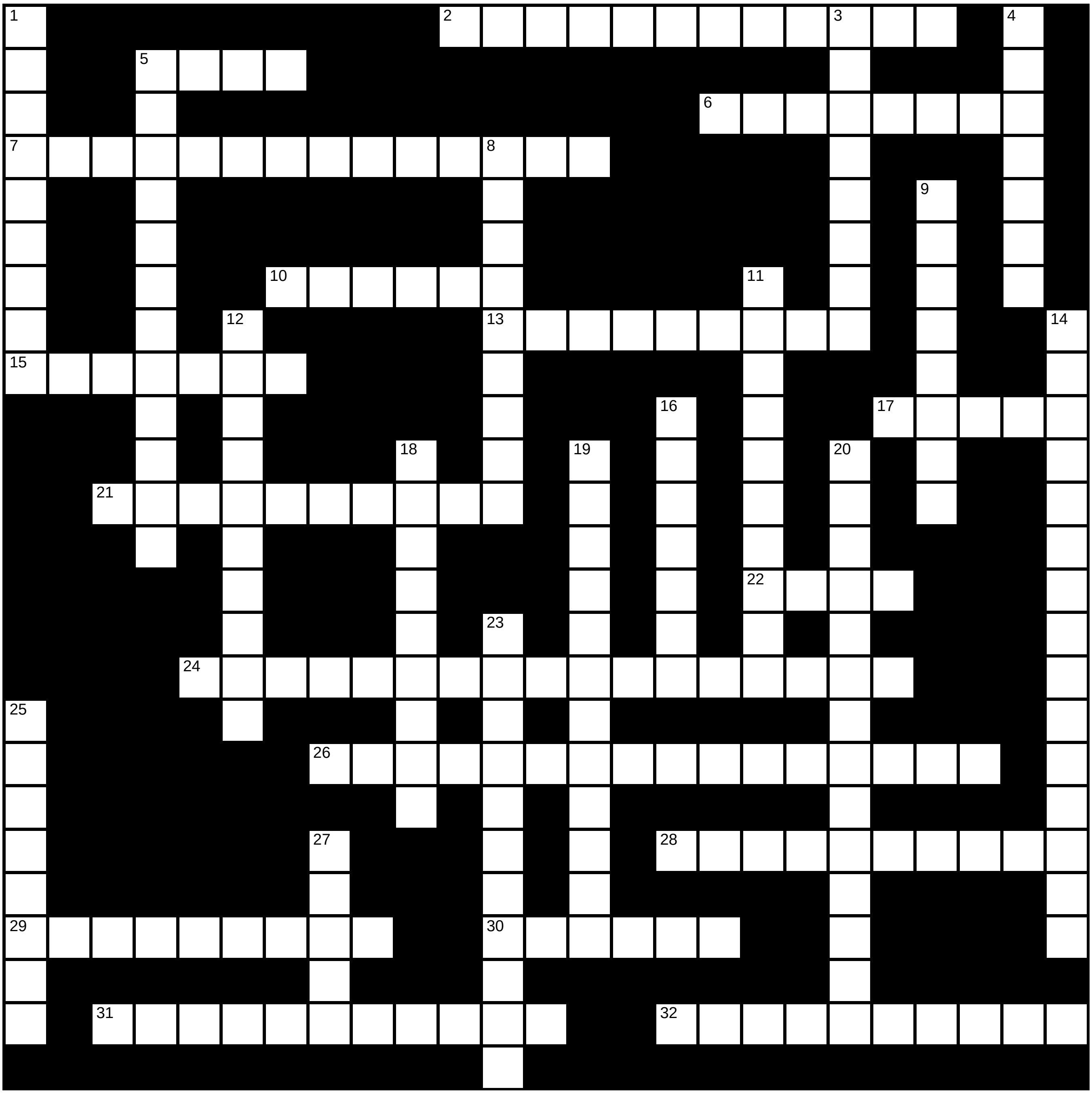
a) Consumption____.
b) Income____.
c) Export receipts____.
d) Import payments____.

Glossary:

Balance of Payments	Export receipts minus import payments.
Boom	A time when economic activity is high, and incomes and profits are increasing.
Capital resources.	Man made good used to produce other goods.
Circular Flow Model	A model that shows the relationship between sectors of the economy.
Collective goods	Goods provided by the government through the taxation system. Includes both Mixed goods, and Public goods.
Commodity	A good or service.
Consumer	A user of goods and services.
Consumption	Household spending on goods and services. Consumer spending.
Demerit good.	A good or service considered bad for us.
Depression	A time of negative growth, incomes and profits may be falling.
Direct tax	Tax paid directly to the Inland Revenue Department. E.g. P.A.Y.E.
Disposable income.	Income after tax.
Entrepreneur.	An organiser of resources.
Export receipts.	Income / Money coming into New Zealand from the overseas sector in return for our exports. A money flow and injection into the economy.
Exports	Goods and services made in New Zealand and sold to the overseas sector. A real flow.
Factor reward	Payment made to household by firms for providing resources.
Factors of production	The inputs into the production process – Land Human resources and capital.
Financial sector	Acts as intermediary between households who save money and firms who borrow money for investment.
Firm	A business in the private sector. They are owned / operated by individuals, usually with the goal of profit maximisation. A producer of goods and services.
Foreign Exchange market	Where currencies from a range of countries are bought and sold.
Government Sector.	Provides services such as police, hospitals, schools etc.
Household	A group of people living under one roof.
Human resources.	Labour and Entrepreneurship.
Import Payments.	Money leaving New Zealand to the overseas sector in return for imports. A money flow and withdrawal from the economy.
Imports.	Goods and services brought by New Zealand from the overseas sector. A real flow.
Income	This is the flow that shows the payments made by firms to households for using resources. E.g. wages and salaries.
Income tax	A direct tax on earned income.
Independence	Self sufficient – not relying on anyone.
Indirect tax.	Tax paid indirectly by a third party. E.g. Firms collect tax (G.S.T) from the consumer and passes it onto the government.
Injection	Money that is put into the circular flow.

	- Export receipts. - Investment. - Government spending. Injections increase the level of economic activity.
Interdependence	A mutual reliance. When two sectors/ people rely on each other.
Interest	The cost of borrowing. Payments made by firms to the financial sector in return for the money they have borrowed for investment. The reward for saving.
Investment	The buying of capital by firms.
Land	All natural resources.
Market	A place or situation where an exchange takes place.
Merit good	A good or service considered good for us.
Money flow	The flow of money within the economy.
Money Market	Connects savers (households), financial institutions and firms.
Mixed goods	Goods sold by both the private sector for profit and provided by the government. E.g. Private schools and Public schools.
Overseas sector	New Zealand's trading partners throughout the rest of the world.
P.A.Y.E.	Pay as you earn. The most common type of income tax.
Producer	Someone who provides or creates goods and services.
Progressive tax.	Tax that increases as income increases. E.g. In New Zealand the rates are 19.5%, 33% and 39%.
Public sector.	The government sector.
Quota	A restriction on the amount of imports allowed into a country.
Real Flow	These are the flows of the factors of production – Land, Human Resources and Capital
Recession	A time when economic activity is low, and incomes and profits are low.
Resource Market	Where resources are bought and sold.
Sector	A part of the economy, one section of the economy.
Subsidy	A payment made by government to firms to help reduce the cost of production, increase output and reduce cost to consumers.
Tariff	A tax on imports.
Transfer Payment	A payment made by government to households. E.g. Unemployment benefit, working for families, income support.
Withdrawal	Money that is taken out of the circular flow. - Import payments. - Government taxation. - Savings. Withdrawals decrease the level of economic activity.

CROSSWORD PUZZLE



Across

2 Output per unit of input. (12)

5 An organisation engaged in the production process. (4)

6 Someone who provides a good or service. (8)

7 The concentrating on the making of one type of good (14)

10 Payments made from firms to households. (6)

13 Goods and services (9)

15 A good or service considered bad for us is a ________ good. (7)

17 A good considered good for us is a ______ good. (5)

21 The making of a good or service. (10)

22 A time of high growth. (4)

24 Exports minus imports. (7,2,8)

26 Payments made from government to households. (8,8)

28 A time of negative growth. (10)

29 A good provided by both government and private firms. (5,4)

30 A tax on imports. (6)

31 A man made good used to produce other goods. (7,4)

32 The buying of a capital good. (10)

Down

1 A group of consumers living under one roof (9)

3 A group of firms producing the same type of good. (8)

4 When something is done for you. (7)

5 Payment made to household by firms for providing resources. (6,6)

8 Money that is put into the circular flow. (9)

9 The cost of borrowing or the price of money. (8)

11 Income after tax is your _______ income. (10)

12 Money that is taken out of the economy. (10)

14 Mutual Dependence (15)

16 A payment made by government to firms to help reduce the cost of production, increase output and reduce cost to consumers. (7)

18 The sector that acts as intermediary between households who save money and firms who borrow money for investment. (9)

19 An organiser of resources. (12)

20 Income / Money coming into New Zealand from the overseas sector in return for our exports. (6,8)

23 Household spending on goods and services (11)

25 Someone who uses goods and services. (8)

27 A restriction on the amount of imports allowed into a country. (5)