**ECONOMICS**

**NAME:**

**LEVEL 1**

**ACHIEVEMENT STANDARD 90988**

**Demonstrate understanding of the interdependence of sectors of the New Zealand economy.**

**3 Credits - Internal**

**Achievement Criteria**

| **Achievement** | **Achievement with Merit** | **Achievement with Excellence** |
| --- | --- | --- |
| * Demonstrate understanding of the interdependence of sectors of the New Zealand economy.
 | * Demonstrate in-depth understanding of the interdependence of sectors of the New Zealand economy.
 | * Demonstrate comprehensiveunderstanding of the interdependence of sectors of the New Zealand economy.
 |

**PRODUCTIVE SECTORS OF THE ECONOMY**

Objectives: Explain the characteristics of primary, secondary and tertiary sectors, and the

***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**

Primary sector – this consists of producers that

**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 transform 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

**The interdependence of the sectors.**

**Secondary sector**

Produces goods, processes goods and manufactures goods.

**Consumers**

Buy goods and services.

**Primary Sector**

Products extracted from the land

**Tertiary sector.**

Provides services to **all** sectors and consumers.

The above diagram shows the interdependence of the different sectors.

**Between the primary and secondary sectors**

**Between the secondary and tertiary sectors**

**Between the primary and tertiary sectors**

Production of a can of peaches

Explanation

**Activities:**

1. Define the following terms:

Primary Sector­

Secondary sector

Tertiary sector

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

2

1



4



3

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.

1. Identify each of the following from the above pictures.

i) One human resource

ii) One capital resource

iii) One natural resource

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

c) Define the term capital resource.

3. 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 |

**THE CIRCULAR FLOW DIAGRAM**

**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

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

Households are made up of these are people who .

Firms are made up of Producers these are people / organisations who are involved in the .

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 ( and ) from households to firms. It is also shows the flow of goods and services ( ) 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 .

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

What is a market?

**A market is**

e.g.

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.

Resources

* Human resources.
* Natural resources.
* Capital resources.

Firms

Use resources

Households

Owners of resources.

 ***Resources market***

Income

* Wages. (labour).
* Rent. (land)
* Interest (capital)

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 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
* Land
* Capital

**GOODS AND SERVICES MARKET**

This is where firms sell

**Interdependence between households and firms is shown by**

***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**

**It is not savings.**

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

Investment is an 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

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 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 .

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

 .

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

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

**Export receipts are an**

**Import payments is a**

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

**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

Like wise if NZ consumers want to buy Japanese cars then

 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**

**The overseas sector relies on firms for**

**The NZ economy relies on the overseas sector for**

**If the overseas sector were removed from the economy 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**

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 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.

**Financial**

**Sector**

 **?**

 **Sector**

  **a b**

**Producer**

**Sector**

 **c**

**Household**

**Sector**

 **d**

 **e f g h i j**

**Government**

 **Sector**

1. What is the name given to the sector that is not labelled in the diagram above?
2. 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:

1. the financial sector was removed.

1. the government was removed.

3. Explain how the removal of the overseas sector would affect the total output of the economy.

1. 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?
2. Explain the economic concept of interdependence. Illustrate your answer using an example from the Household and Producer sectors.

Explanation

 Example

1. Name the two main types of tax from which the government gets its revenue.
2. Which items in the circular flow model show injections of money into the economy? What will be the impact on the following of an injection?
- Income
- Consumption
- Employment

- Government spending

1. Which items in the circular flow model show withdrawals / leakages of money from the economy?

What will be the impact on the following of a leakage of money?
- Income
- Consumption
- Employment
Government spending

**9.**

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



(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 |  |



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.

**10**

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| 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.

1. 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.

|  |
| --- |
| 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. |

1. (a) Explain how New Zealand **households** can beneﬁt from increased tourism by referring to the circular ﬂow of economic activity.
2. (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.
3. 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.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  | **Government**SectorParliament |  |  |  |
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|  |  |  |  |  |  | **(i)** |  |  |  |  |  |  |  | **(iii)** |  |  |  |
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|  | **Household**SectorHouse |  |  |  |  |  |  |  |  |  |  | **Producer**SectorFactory |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  | **(ii)** |  |  |  |  |  |  |
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|  |  |  |  |  |  |  |  |  | **Financial**SectorBank |  |  |  |  |  |  |  |  |  |
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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 |  |  |  |  |  |
| 1. 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

(b) Household sector

**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

(b) Explain the likely effect of the proposed income tax cuts on the markets for resources.

(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.

**QUESTION FOUR**

a) Name the corresponding flow associated with investment. .

b) Explain how an increase in interest rates could have an impact on the foreign exchange market.

c) What will the impact be of an increase in interest rates on
 The financial sector.

 Firms

 Households

 The government sector.

 The overseas sector

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

**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 market is where firms provide with goods and services in exchange for .

b) Households spend on goods and services ( ) to .

c) The cost of investment to firms is the paid to the financial sector. If the rate increases then firms will
 less and buy less goods. This will mean the future production will and employment may also .

**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. |