Diagram of the economic cycle

Study the diagram below and answer the questions that follow.

a) Explain how money flows from households to producers and from producers to households. [4 marks]

b) Why does money leave the economy when goods are imported? [1 mark]

c) Where do households get the money from that they spend on goods and services? [2 marks]

d) Who owns the factors of production? [1 mark]

e) How does the foreign sector contribute to money entering the economy? [2 marks]
## Suggested Solutions

<table>
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<th>Question number</th>
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| 1               | 10             | a) Households are the owners of the factors of production ✓. They provide these factors to producers, who apply them to produce goods and services ✓. They pay the households for these factors of production in the form of salaries and wages ✓. Therefore, the money flows from the producers to the households. Households use these salaries and wages to buy the goods and services from the producers ✓. Now the money flows back to the producers. [4 marks]  
  
b) Money leaves the economy when goods are imported, because the money that could have been spent in South Africa is now spent outside South Africa ✓. The income goes to another country, not to South Africa. [1 mark]  
  
c) Households get the money they use to buy goods and services from the salaries and wages they earn when they work ✓. Some households also receive government grants ✓. [2 marks]  
  
d) Households own the factors of production. [1 mark]  
  
e) The foreign sector helps money to enter our economy by buying goods and services from South Africa ✓. This means we export the goods and services to other countries, or they import goods and services from South Africa. They pay for the goods and services, and the money goes into our economy ✓. [2 marks] |