

# Economy module

## Household

The household sector consists of individuals. They are the owners of various factors of production available in the economy. They may be workers, landowners, or entrepreneurs.

In the factor market, the household sector offers firms a factor of production. In return, they receive a variety of incomes, including:

- Wages for labor
- Rent for used land
- Profit for entrepreneurship
- Interest for capital

Another source of income is transfer payments from the government, such as pension benefits and unemployment benefits.

Households use that income for consumption or for saving. Before allocating to the two, they must pay taxes. The income remaining after paying taxes is called disposable income.

Households use disposable income to buy several products. They buy it from the business sector in the product market. Products fall into three main categories of durable goods, non-perishable goods, and services.

Households also save some of their disposable income to accumulate wealth. They place it into real assets such as property or financial assets such as time deposits, stocks, mutual funds, and bonds.

Households as rational economic actors

Economists assume the household sector is rational in making economic decisions. They will try to maximize satisfaction (utility) from the consumption of goods and services.

Utilities are subjective. The same item may satisfy you and your friends in different ways. Likewise, your satisfaction may also be different when you are at different times and locations.

**Business**

The business sector consists of various organizations that produce goods and provide services. Their motive is for profit. They sell goods or provide services to other sectors and earn revenue as compensation.