

# INVESTOR'S GUIDE

A guide to the financial markets, investments and the economy  
25 August 2017



NICO Asset Managers

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## Topic 248: Economic Systems

Last week we concluded the topic on business cycles by discussing the effects of recession. This week we will begin a new topic on economic systems. An economic system is a means of production, resource allocation and distribution of goods and services within a society or a given geographic area. All economic systems differ on what is produced, how it is produced and who receives the output of production. The following are the four types of economic systems:

### 1. Traditional Economy

A traditional economy is a system that relies on customs, history and honored beliefs. Tradition guides economic decisions such as production and distribution. Most traditional economies operate in developing regions such as Africa. Currently, countries do not use this system but it is prevalent in communities. Traditional economies center on a clan or tribe and are usually a nomadic hunter-gatherer society. Members of a traditional economy are very close-knit and each member has a specific and pronounced role. There is not much trade in this type of economic system because everyone consumes and produces the same things. However, goods can be still be exchanged through barter. The San (Bushmen) tribe of Botswana is an example of a traditional economy.

### 2. Command Economy

This is an economic system characterized by a dominant centralized power (usually a government) which controls a large part of all economic activity. Economic decisions are made by government and there is no free market (an unregulated market system which is based on the forces of demand and supply).

This kind of economy tends to develop when a country is in possession of large amounts of valuable resources such as precious metals, minerals or oil. Command economies are also prevalent in dictatorships or kingdoms. The government regulates these resources and owns everything involved in their industrial process. The government creates a central economic plan for every sector in the country and resources are allocated according to this central plan. Government also creates laws, regulations and directives to enforce this central plan. North Korea is an example of a command economy.

### 3. Market Economy

This is an economic system in which economic decisions are guided by the aggregate interactions of individual citizens and businesses. The laws of demand and supply direct the production of goods and services. In a market economy, most goods and services are privately owned. There is freedom of choice, such that people are free to sell or purchase goods and services in a competitive market. These competitive markets keep prices fair and ensure that society provides goods and services efficiently. The role of government is to ensure that markets are open and working. Currently, no absolute market economy exists in the world.

### 4. Mixed Economy

This is an economic system that combines the features of traditional, command and market economies. Although mixed economies allow the free market forces, there is still some basic government control in specific areas such as international trade. In general, a mixed economy allows the pragmatic division of means of production between private ownership and public ownership. Many countries in the world are mixed economies, including Malawi.

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