

David R. Henderson and Charles L. Hooper, *Making Great Decisions in Business and Life*. Chicago Park, CA: Chicago Park Press, 2006. \$15.95 (U.S.), 287 pp.

David R. Henderson, associate professor of economics at the Naval Postgraduate School and a research fellow at the Hoover Institution at Stanford University, along with Charles L. Hooper, a visiting fellow at the Hoover Institution, examine the process of decision-making through a microeconomic lens in this book. *Making Great Decisions in Business and Life* is full of useful examples of how a microeconomic focus provides new and unexpected ideas about decision-making in everyday life. The book is broken down into fifteen entertaining and concise chapters. Many of the key concepts are laid out in the first nine chapters with the later chapters providing more in-depth application of the ideas.

Henderson and Hooper begin by describing their central theme—that a little clear thinking goes a long way. They use the metaphor of a train on a track. All of your skills and knowledge keep the train on the track, but working within a business is far more than keeping the train on the track. Sometimes, they assert, you need to switch tracks. We can only change the direction of the train through well thought out decision-making. Henderson and Hooper further explore thinking clearly in their second chapter by emphasizing the need to think on the margin. This basic microeconomic principle is simply defined as thinking about only the next increment. They explain that many people make bad decisions by thinking in terms of averages, which they illustrate through an example of a manager hiring a new cashier. A manager who is thinking about averages will decide not to hire a new employee because the average productivity of her employees will fall, but the manager who is thinking on the margin will hire the employee if the additional revenue the worker creates exceed the cost of hiring her.

Each decision we make creates an outcome with a set value to us. Value can be financial or non-financial and is the ultimate measure of worth. Realizing what is valuable can help us to make more sound decisions. It makes simple economic sense that a truly good deal is based upon a person's subjective valuation of an item being greater than its cost, not how much they saved over the original price. An amusing example of this is a cartoon David saw on the door of the late UCLA Professor Jack Hirshleifer. A man is offered the opportunity to buy an elephant for \$800. The man declines so the salesman lowers the cost to \$500. The man exclaims "No! What would I do with an elephant? Come on, I live in an apartment." The salesman now offers two elephants for \$500 and finally the man says, "Make it \$400 and you've got a deal." The man knows he can do nothing with the elephants but buys anyway because it is such a great discount, even though the elephants are of little value to him.

Henderson and Hooper also suggest considering opportunity and sunk costs to evaluate the true value of an item or opportunity. Opportunity costs are simply the costs you incur by not doing something else. Everything we do has an opportunity cost. Sunk costs are anything you have already invested toward a goal and they can easily cloud an individual's judgment. If an entrepreneur invests one hundred thousand dollars into starting a business, they may continue to invest all their life savings into a failing business because they are afraid of losing their original investment. The one hundred thousand dollars is already gone and thus is a sunk cost. If the entrepreneur thought

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things through he would cut his losses and move on to something that has a better chance of profits.

It may seem obvious, but one of the simplest ways to think clearly is to recognize what's important. Henderson and Hooper dedicate an entire chapter to encouraging people to think about what is important. Unless we think about what is important, they argue, we'll find ourselves led astray in our search for solutions. A large part of figuring out what is significant is distinguishing important objectives from less-important ones. An unwillingness to focus on what is truly important can handicap decision-making.

One of our favorite chapters is titled "Create Better Alternatives." This chapter emphasizes the idea of systematically thinking through situations that seem to have less than ideal outcomes. Here the argument is that seeing solutions often start with how one approaches difficult situations. David uses an example from a trip he once took. He described the pillows in his hotel as being as hard as a rock and it seemed the only alternative was to go to a nicer hotel that would cost him \$200 more for the trip. Instead, by thinking clearly through the issue he found a simple solution of going to a store and spending \$90 on new pillows for himself and his family. Not only did he sleep better and save \$110, but he also was able to take the pillows home.

In this chapter Henderson and Hooper introduce the idea of interests and positions. An interest is something you want, such as an objective, preference or a goal. A position is an alternative that you have selected to achieve the interest. You should always begin with what you want (your interest) and then consider how to get it through your position. In the hotel example, David wanted a more comfortable pillow. He liked the rest of his room just fine and did not want to spend an extra \$200 so his interest was to be more comfortable in his current room. This led him to the idea of replacing the thing that brought him discomfort.

Henderson and Hooper conclude the chapter with six steps for thinking clearly that should be posted on every bathroom mirror or next to every computer. They are (p. 139):

- Step #1: Think about what you want
- Step #2: Think of alternatives that give you what you want.
- Step #3: Consider what you like and dislike about each existing alternative.
- Step #4: Create hybrid alternatives, those that combine the best elements from the existing alternatives. "Cheat" the existing order by cherry-picking the best elements.
- Step #5: Throw out all impossible alternatives.
- Step #6: Pick the best alternative.

The remainder of the book focuses on different applications and extensions of these simple steps to better decision-making. In the concluding chapter, Henderson and Hooper offer some simple ethical advice, which is to do the right thing. They don't preach to the reader, they just remind her that the best way to live and conduct business is honestly and that by helping others we can help ourselves. The conclusion is a microcosm of the rest of the book: simple but profound insights into living a better life through better decision-making. Through clear and concise writing, they created a book that is accessible. By adding real-world examples and anecdotes from their personal lives, they made the book relatable. Overall we cannot recommend this book enough.

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