

BOOK REVIEW

Making Great Decisions in Business and Life by David R. Henderson and Charles L. Hooper, Chicago Park Press, Chicago Park, 2006.

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In modern day society a consumer must make a choice usually between two or more goods or think about “to buy or not to buy,” but when does the consumer know they will make the good choice. Yes, they can weigh the pros and cons, look at the cost, ask the manager, or flip a coin. But when and how can the consumer make the right choice. The explanation of difference between good choices and right choices are both answered in this book. DRH (David R. Henderson) and CLH (Charles L. Hooper) discuss different scenarios and analyze how the consumer reaches the right choice. The majority of examples from the book are real life situations, similar to real life situations, or topics simple enough to relate the concept and understand how to make great decisions in business and in life. The book uses these small personal concepts to show how the reader can apply them to big business decisions, which lowers stress and results in better decision making leading to better lives and better business.

A simple example of difference between the right choice and a good choice is as follows: A consumer is at a cellular phone company and they are looking for a “deal” and they see cell phone1 for ten dollars with a bill for forty dollars a month and cell phone2 for fifteen dollars with a bill for thirty-five dollars a month. Immediately the consumer, without much math skills the consumer will go for the cheaper phone relative to price and think it’s the better deal. The problem here: the consumer chose the cheaper phone, but in the long run spent more money on the phone bill. The correct choice would be to get the higher priced phone with the cheaper bill. This is only one of the hundreds of scenarios that can be applied with parameters that make the choice of a “good deal” easier or harder to calculate.

In *Making Great Decisions*, there are short stories that take several things into consideration such as figuring how much your time is worth, buying the right muffler, and thinking on the margin. The book addresses these topics because consumers do not acknowledge them at first sight. In chapter 1, CLH, talks about the consumer who buys based on price only. The consequences of buying based on price only are receiving a product that can malfunction and or continue buying lots of the cheap products that don’t last. In CLH’s case, he bought a sixty-five dollar muffler that took more than four hours to install and gave him multiple problems. When he bought the muffler that was one hundred fifty five dollars he experienced

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no problems. He learned the hard way that just because something is cheap does not mean it is a good deal. To add on, there were other hidden factors to consider, opportunity cost being a huge one. Opportunity cost is one of the biggest things most consumers are unaware of. Time is money but for some reason consumers forget how much time they waste to get a deal. Opportunity cost, the cost of passing up the next best choice when making a decision. So the time he wastes waiting on getting the muffler done could have been spent on anything else. The sixty five dollar muffler results in a complete waste of time and money. (11)

In chapter 2, “thinking on the margin,” is also one of the many things to consider when making good decisions. When a consumer makes a choice the last thing they think about is thinking on the margin when it should be the first. For example, David and his therapist discuss time put towards to writing a dissertation. David spent a week avoiding work on his Ph.D. dissertation. When it was crunch time, he still didn’t want to do it because he felt that it was too difficult to put four or more hours of work into in one day. The therapist replied “How long are you working on it now on an average day?” DRH said “...zero.” With that said, it is obvious that any time spent on it is better than no time spent writing it at all. The therapist proposed that he should start small and gradually build his time up to reach the desired time committed to working on the dissertation. Thinking on the margin brought DRH to the conclusion that it was possible to start at two hours a day and work his way up, breaking the large the assignment into several small assignments to hide the illusion of difficulty the assignment contained. (19)

Making Great Decisions is generally examining how consumers usually make horrible decisions because they “think” they are getting a good deal then shows what the actual good deal should be. They are easily lured into purchases based on low prices, sales talk or some market scheme as I would say that distracts the consumer from using some common sense. It does not take rocket science to see that everything is not worth buying just because it is cheap. For example from the text, the salesman is trying to sale an elephant to a customer. Now realistically nobody really “needs” an elephant but this awkward story makes perfect sense of the simple mistakes consumers make. The salesman is selling the elephant for five hundred dollars and the customer has no interest, so the next tactic he uses is to throw another elephant in for free, this still doesn’t please the customer so finally the customer creates his own deal by saying “I’ll buy two if you make the price four hundred dollars. Immediately, the salesman closes the deal. This is a typical scenario in society for consumers especially in flea markets where the consumer will end up purchasing a good they don’t need but they buy it because the deal seems to be “so good.” In the case of the elephants the only way the deal would be any good is if the consumer could buy the two elephants for four hundred dollars and sell them for more than what he paid which is not likely because he will have difficulty finding someone to sell elephants to. The lesson is cheap does not imply a good deal unless the consumer can capitalize on the purchase to make a profit or if the cheap good is of any real value to the consumer.

In chapter 10, *Making Great Decisions* looks at how risk is a part of growth. CLH tells a quick story of his father-in-law and his avoidance of risk. He asks his father-in-law why he doesn't invest in the stock market and his father-in-law replies "...it's like gambling." CLH knows this is true but ponders on the fact that everything is technically a gamble. He elaborates on his father-in-law's lifestyle analyzing all the events which are too "gambling." CLH figures that his father-in-law must not gamble with moderate investments. From what his father-in-law has done in his lifetime, every event has its level of risk so CLH concludes that risk depends on your situation but the question is how much risk it will take to alter your decision. CLH answers the question in his drug dealer example. "The Drug Dealers risk" talks about the probability of dealing drugs and the risk it involves. The summary of the example is that age and money invested at the age will affect the decision if the person should deal drugs. "The 20 year old man with only 1,000 would have no problem dealing drugs to gain more money but the 40 year old man with 200,000 will try to find an easier alternative to make money." We can assume the 20 year old man has not much to lose because since he only has 1,000 and 20,000 will make him much better off, but for the 40 year old man he has plenty money invested so 20,000 and the chances of losing 200,000 is not worth the risk. So the lesson from the tenth chapter is that every individual is affected differently by risk and the measurement of risk is not constant, it varies so in order to make the right choice the consumer will need to determine if the risk is higher than the amount they already have. For example if you lose \$10 in a \$20 dollar bet risk is high so you should not make that bet again, But if you lose \$10 in a \$200 bet you won't be as hurt.(165)

Chapter 15, "Do the right thing," of all sections is the most important. This is the answer to making "great decisions." This section of the book reveals the secret. Doing the right thing is the best way to make the best choice. Doing the right thing consists of doing for others and in the end you will get what you want. In *Making Great Decisions* you have three ways, one that actually works. "The three choices are create it yourself, steal it and trade. Creating it yourself directly creates value but there are tight limits. Stealing results in negativity and nothing is created. Trade is how the 99 percent of people get what they want. This means with trade we need to depend on many others, usually people we don't even know." This chapter is more of the way to be ethical. Making some of the greatest decisions require the ability to share because we care for others.

DRH and CLH are good economic thinkers who make the obvious even more obvious. That means that the simple things consumers should consider, they discuss and make the reader realize the concepts the consumer thinks about but should use more in depth thinking of the concepts to make the best decision. I agree with all of the topics discussed in the book throughout the book. Opportunity cost, what constitutes a good deal, thinking on the margin, sunk costs, bias, risk, inequality and other concepts discussed in the book are the topics focused on in a principles course and are applied to real life. Without knowing, many consumers use these concepts to

make decisions, but with the help of the book the consumer can develop an understanding of the concepts without a principles course.

To conclude the book is a great read and I suggest it to other students whether or not they are economics majors or not because the book is full of knowledge that people should have if they intend on getting their money's worth. Simple concepts that derive life's biggest problems in a matter of seconds. Whether if it's a muffler job, buying elephants, writing a dissertation or landing a partnership with a big business the lessons learned in the book make the reader a better decision maker.