Dynamic Economic Decision Making

Strategies for Financial Risk, Capital Markets, and Monetary Policy

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Dynamic Economic Decision Making
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Dedicated to the generations before and after:
To Deolinda and Luperce Silvia,
Joe, Kat, and Andrew
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The Great Recession of 2008 to 2010 demonstrated the power that macroeconomic and financial forces have to alter the risks and rewards that frame choices for both private and public sector decision makers. More-\over, these forces completely overwhelmed the complex, micro mathematical strategies that were the rage at many institutions. Many books about decision making, finance, and economics, especially textbooks, are more like cookbooks—they tell you how to prepare a specific meal, step by step, but not teach the fine art of being the gracious host who leads the guests through a wonderful evening. Most technique-oriented business strategy books are not reader-friendly for those who must make real world decisions. The focus of many of those writings is almost exclusively on fine techniques of micromanagement, while ignoring the reality of the broader set of macro scenarios faced by actual decision makers involving the many changes in economic growth, finance, and globalization that are ongoing in our world. Is it any wonder that failure and surprise accompany the economic shocks of the day? Our finest financial engineers fail in the face of real world change.

This book is drawn from both my professional and teaching experience. In college undergraduate and graduate business courses, many students are given laundry lists of techniques for solving specific problems, with each problem treated as an isolated case. The breadth of factors that impact an economy and how to place these factors in the context of a model of the economic world is often ignored. The spreadsheet has become a crutch for many, and also, unfortunately, a barrier to leadership. Professionally, having lived through numerous business cycles, I have seen complex, precise, microeconomic decision making based on “management economics” come to grief because of the frequent shocks from the macroeconomy that are simply unaccounted for, or worse, assumed away in so many models and professional papers. We have techniques without context, precision without purpose, solutions without realistic settling of the problem.

In contrast, effective strategy, in my opinion, involves connecting the dots across disciplines. In this book, I intertwine three intellectual disciplines—economics, business, and decision making. Each has a role in the economy, but traditionally each has been taught separately in classrooms.