# Discover your inner economist

Economics

In his delightfully witty and humorous book, “ Discover Your Inner Economist”, Cowen takes the dry and serious subject of economics from the mundane to the everyday. He begins by subtly stating that economics is not aboutmoney, but other motivations. “ The critical economic problem is scarcity,” he says. “ Money is scarce, but in most things the scarcity of time, attention, and caring is more important. ”

In a highly aimless, rambling style, Cowen leads the reader down many divergent paths from topic to topic, covering everything from how to talk your spouse out of buying a warranty on a new purchase to why your daughter will not wash the dishes to why we do not have to eat “ sunk costs. ” Throughout the book, two themes are clear. The first is that everyone is very self-centered, andmotivationis all about “ Me”, or as Cowen calls it, “ the Me Factor”. The next motif, although highly correlated to the former, is control. Both themes encompass the concept of identifying motivation.

“ The key to tapping your Inner Economist”, Cowen explains, is the ability to identify people's true incentives, which are usually more than money. Suppose you want your daughter to help out around the house by washing dishes. Should you pay her? Bad idea”, Cowen warns. “ If you explain that washing dishes is herfamilyresponsibility, she may not always obey, but at least she'll feel some obligation. Bring payment into the picture, and her motivation changes. It becomes a market transaction”, writes Cowen, and " the parent becomes a boss rather than an object of deservedloyalty.

" The point is that your daughter will soon come to realize that she would rather work for someone else. " Expect dirtier dishes," Cowen concludes. Motivation and incentives are clearly interesting to us all, whether we acknowledge it or not. In his book, Cowen offers some unique theories on motivation and incentives. Big business is very interested in the concept of motivation; as the goal of any business is to be most productive, and this requires motivating employees to become their most productive. It is the responsibility of managers to strive to motivate employees so that they will make valuable contributions to the organization.

Managers most frequently do this by offering rewards to motivate people to share their talents with the company. Managers seek to ensure that people are motivated to contribute important inputs to the organization, that these inputs are focused in the direction of high performance and that high performance results in employees obtaining the outcomes that they desire. Management theorists have come up with many theories to explain what creates a motivated workforce. Cowen believes that small improvements in understanding will bring a much better use of incentives (motivation).

Cowen uses economic theory as the basis for using pattern recognition to incentivize. His book does not offer management theory, however, the author focuses on learning how humans in general are motivated, and these theories can be applied to business, personal lives, and just ordinary living. Study and research have proven that motivated employees are more productive than those employees who lack motivation. On this assumption, a look at some of the most widely known motivation theories may add some insight into the role of incentives as effective motivators. Frederick Herzberg’s theory is based on two factors: Hygiene and Motivation.

The hygiene factors are based on extrinsic values such as salary, working conditions, ergonomics, status, and company policies. These factors, according to the theory, do not lead to motivation, but the absence of positive hygiene factors causes dissatisfaction. Herzberg's other factor is motivation, which encompasses those work conditions that prompt intrinsic motivation. These factors include job satisfaction, growth, achievement, and recognition. According to this theory, in order for employees to be motivated, there must be low levels of dissatisfaction and high levels of motivational factors.

Herzberg suggests these factors should be used together to reduce dissatisfaction and increase motivation to achieve high productivity. Another famous motivation theory is Maslow's Hierarchy of Needs. This theory is based on the concept of levels of needs in human beings. This theory suggests that each level of need must be satisfied before someone is motivated to achieve the next level. The lowest level is physiological, then safety, then love, esteem, and finally self-actualization. The following chart from Accel- Team illustrates Maslow's theory: (Accel Team, 2007)

From an economist's point of view, in Cowen's book, one economist, Colin Camerer took a poll at the Davos World Economics Forum and polled big business gurus as their ideas on motivation. The number one and two answers were, respectively, Recognition andRespect, and Achievement and Accomplishment. Never mind that the sources may have been slightly skewed, he was polling a particularly successful group of businessmen and not average employees, but the point is that money did not make the top two as far as incentives go. Cowen does provide money its proper place within the motivation/incentive model, however.

He does not dismiss money as a primary motivator, he merely sets it aside as the single most obvious incentive to allow thought for other, equally motivating incentives. Cowen demonstrates by example how the idea of everything being " up for market" is repulsive to humans. He notes that there are some things that simply cannot be motivated through monetary incentives. At the beginning of the book, as mentioned above, Cowen discusses the resistance of his stepdaughter, Yana, to washing the dishes. After he and his wife resorted to paying her, " she did them for about a week and then stopped," he says.

" I knew this could happen. I understood that there is such a thing as intrinsic motivation and that if you pay people, you might weaken that. What I didn't really " get" was the control issue. That when you start paying people to do a thing, they often see it as control. " But there was a happy ending: After Yana read the book, she started doing the dishes. For free. Cowen believes that we are also consumed with the desire for control. Cowen argues that if you want to have more control of what happens around you, you need to know how to balance the kinds of incentives you offer.

As far as good reading, unfortunately, there are not enough economic tricks that break down neatly into interesting advice. When he discusses the techniques for motivating your dentist, like giving them a bonus for cavities well filled, he ends with, " I don't think I can control my dentist or receive the very best care. By giving up this quest for control, however, I might get care that is just a little better than average. " Is that really any advice, or just an economist attempting to relate to real humans? Economics cannot tell you what the price of gold will be next week.

But it can help you choose good restaurants, promises Cowen. The best sections of the book concern tactics for maximizing one’s cultural consumption, (at least according to Cowen’s standards). Cowen explains that those of us who enjoy unique and tasty flavors in our meals should avoid restaurants located in fancy shopping malls or on major thoroughfares. These restaurants must pay high rents to occupy such locations and, therefore, they need customers in high volumes. Because these restaurants must appeal to large audiences, meals there will be more predictable and bland than those served in restaurants located off beaten paths.

So if you're hankering for dinner at a restaurant featuring bold or unusual tastes - at a restaurant that serves ethnic dishes that are truly authentic -- you'll have better luck going to a Chinese or Ethiopian or Cajun (or whatever ethnic variety you crave) restaurant that is located on a side street or in a suburban strip mall. With lower rents to pay, such off-the-beaten-path eateries are more likely than are restaurants in high-rent locations to cater to serious foodies. Choosing a restaurant is just one of many important and surprising insights offered in Cowen's book.

He lists eight strategies for taking control of one’s reading, which include ruthless skipping around, following one character while ignoring others, and even going directly to the last chapter. Your eighth-grade Englishteacherwould faint. But the principle here is valuing the scarcity of your own time, which people often fail to do. It works for movies, too—Cowen will go to the multiplex and watch parts of three or four movies, rather than just sit through one. Why wait for a highly predictable ending when a fabulous scene might be unfolding in the movie playing next door?

Cowen also offers advice for how to defeat the boredom that, despite our best intentions to be culturally literate, overtakes many of us minutes after we enter an art museum. How do we deal with this " scarcity of attention"? Pretend to be an art thief, he suggests—in every gallery, pick one picture that we'd like to run off with. Sounds juvenile, admits Cowen, but it " forces us to keep thinking critically" rather than daydream about the snack bar. Cowen doesn't really attempt to offer serious advice. He does offer some interesting anecdotes, however.

Among the most valuable insights that economics does offer about investing is to ignore anyone who announces publicly that he knows what will happen to stock prices tomorrow. Anyone who sincerely believes himself to possess such knowledge will not give it away or sell it on the cheap. To do so would be like passing out hundred-dollar bills to strangers or offering to sell hundred-dollar bills for $25 apiece: Very few people are so selfless. If I am confident that shares of, say, IBM will rise tomorrow, I don't want other people competing with me to scoop up IBM shares.

But finding a good meal, well, that's a different story. The most interesting insight for me is that bygones are not always best treated as bygones. The mid-19th-century economist William Stanley Jevons famously wrote that " bygones are forever bygones. " Economists have overwhelmingly taken Jevons' statement as advice to ignore sunk costs. This advice generally is sensible. Suppose you've spent $10 million building a machine that can do nothing but produce chocolate-covered pickles. You discover soon afterward that no one wants to buy your product.

Your wisest course from this point forward is to suck up the loss. Continuing to produce chocolate-covered pickles that no one wants to buy will only deepen your losses, doing nothing to help you recover your investment. But Cowen shows that bygones should not be treated as bygones in all areas of life. When our self-image is at stake, past choices -- costs that are irrevocable -- often remain relevant for guiding our decisions today. Self – deception is another theme through which Cowen offers examples of our " Me First" mentality.

For example, many of us think of ourselves as physically fit. Because of this self-image, we often buy memberships in gyms. But on many an evening, after a long day at work, we're typically tempted to relax at home rather than spend an hour exercising at the gym. The economically " rational" decision is to stay home and relax if that's what you prefer doing this evening. After all, whether you go to the gym or not, the money you've spent on your gym membership is already spent. You'll not get that money back if you don't use the gym this evening.

So the fact that you've already paid for a gym membership should not factor into your decision on whether to go to the gym today. But sometimes this fact does indeed matter. Sometimes we think, " Geez, I've paid for that gym membership. I should go. " And we then summon our remaining energy and head off for some exercise -- even though if we hadn't paid for the gym membership, we definitely would avoid the gym this evening. Again, as a narrow economic matter, that's a silly thing to say and do. From a less-narrow perspective it's entirely reasonable.

By going to the gym we reinforce our positive self-interest. And if the mental trick of pretending that sunk costs are relevant helps in this effort, it's a worthwhile thing to think. For a wonderfully enjoyable and practically useful read you can do no better than to discover your inner economist by reading Tyler Cowen's new book. Tyler Cowen is a professor of economics at George Mason University. He is a prominent blogger at marginalrevolution, the world's leading economics blog. He also writes regularly for The New York Times, and has written for Forbes, The Wall Street Journal, and The Washington Post.

The book is a quirky, penetrating caper through everyday life that reveals how you can turn economic reasoning to your advantage---often when you least expect it to be relevant. Cowen aims to not " hit the reader over the head with economic principles, " but to offer an alternative viewpoint of economics and how it really can improve anyone’s everyday life. Even if you don't agree with all of Cowen's cheerfully offered opinions, it's a pleasure to accompany him through his various interests and obsessions.