The Economic Leader

Economics is the study of decision-making … a discipline focused on the optimal allocation of scarce resources that have alternate uses.

Leaders face scarcity in each decision – scarcity in time, people and resources that have different uses. Leaders seek to allocate resources to their highest valued use.

As such, leadership and economics go hand in hand. Great leaders are good economists (even when they don't realize it).

Six fundamental economic principles underpin decision-making for any leader striving to achieve optimality in their organization.

1. There is a **trade-off** in every decision a leader makes. What we give up constitutes the **opportunity cost** of a decision. *(Mankiw Principles 1 and 2)*

2. Leaders think and decide on the margin. To optimize, decision-makers ensure the **marginal cost** of a choice never exceeds its **marginal benefit**. *(Mankiw Principle 3)*

3. Leaders use their influence to solve **coordination** problems by shaping **incentives**. Leaders align incentives to influence **individual action** and create **mutually beneficial outcomes** for stakeholders. Great leaders anticipate the unintended consequences of their decisions by maintaining a keen understanding of individual motivations and likely responses. *(Mankiw Principle 4)*

4. **Trade** can make all parties better off by creating a **"win-win."** Leaders realize the benefits from trade by facilitating **specialization** and **comparative advantage** amongst the people they lead. *(Mankiw Principle 5)*

5. Perfect **information** leads to efficient outcomes, but we often make decisions with imperfect information. Leaders must seek **equilibrium** in gathering more information and being decisive. Leaders must appropriately identify risk, and balance the tradeoff between **risk** and **reward**. *(Mankiw Principle 6)*

6. Based on the organization's goals, leaders have a normative responsibility to seek **equilibrium** between **efficiency** and **equity**. The efficient solution may not be equitable, and the equitable solution may not be efficient. (Mankiw Principle 7)

Leaders have humility in thought and action. They realize that correlation does not equal causation. They appreciate the assumptions and associated limitations in the models and perspectives that they use to view the world. Leaders are forced to deal with the messy reality, and they recognize that their own biases can influence decision-making.