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Review

Reviewed Work(s): Understanding the New Economy by Alfred L. Malabre,

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Source: *The Journal of Consumer Affairs*, Vol. 24, No. 1 (Summer 1990), pp. 227-229

Published by: Wiley

Stable URL: <https://www.jstor.org/stable/23858682>

Accessed: 23-01-2022 15:26 UTC

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Malabre, Alfred L., Jr., *Understanding the New Economy*. Homewood, IL: Dow Jones-Irwin, 1989, 174 pp., \$19.95.

Arthur Burns, former chairman of the Federal Reserve Board, once said:

I've always considered writing important. I went through all the stages that economists go through, from jargon to lucidity, and on the way I passed through the sesquipedalian (weakness for using big words) stage.

Alfred L. Malabre, Jr., in his book *Understanding the New Economy*, has successfully avoided the sesquipedalian stage as he attempts to make the events of today's economy understandable and usable both to the lay reader—unspoiled by the mathematics and jargon of modern economic theory—as well as to the professor of economics. As the current economic news editor of *The Wall Street Journal* and an interpreter of economic news for over 30 years, Malabre admits that his formal preparation consists of one economics course at Yale that he barely passed. However, as an English major, an observer of history, and an apparently keenly intuitive, common sense reporter, he has observed the economic system with an eye toward finding those few economic statistics that can make that system understandable—even predictable. This book is a walk through his experiences and an introduction to those sources of information he has found to be the most reliable “gauges of the state of the country's economy.”

Many of the chapters of Malabre's book could stand alone as self-contained readings. Chapters 3 and 4 speak to those common measures of economic performance that dominate the front pages of our newspapers. These measures are not only defined, but also they are picked apart and laid bare for all to see. “The GNP (Gross National Product) is ‘gross,’ all right. In 1988, it approximated \$5 trillion.” He then defines the GNP by category and convincingly demonstrates its shortcomings that often escape the statistically illiterate members of the press and public; he points out that the real GNP is the preferred measure to the nominal GNP and that the GNP ignores the value of both the underground and household economies. He performs similar acts of instruction for measures of prices, living standards, unemployment, and efficiency of production. Such information, presented as it is in its intelligible and compelling form, can be valuable knowledge for both members of the public as well as students of the economy.

Chapters 5, 6, and 7 are, to this reviewer, the most interesting, valuable and, perhaps, dangerous. Throughout these pages Mr. Malabre skillfully describes the cyclical nature of the American economy and introduces the reader to the main historical proponents of various cyclical theories—both those correct and embarrassingly wrong—as he attempts to make the observation and prediction of changes in the economy available to anyone who can read. He wants us to beware of false prophets and to try increasingly to do our own forecasting. This is certainly a noble goal and one that, if attained, would be valuable to students of personal finance as well as to personal investors. Undoubtedly, the review of the sources of information and the culling from them of the pertinent pieces to which the reader should pay particular attention is laudable. In fact, after reading Malabre, one might conclude that a daily dose of *The Wall Street Journal*, coupled with a monthly pedestrian stroll through the pages of *Business Conditions Digest* would prepare one for an invitation to *Wall Street Week*. However, herein lies the danger. Almost as soon as the reader begins to feel more knowledgeable about the events that shape his or her life (to say nothing about the size of the portfolio), Malabre cautions the reader that this information should be tempered with personal judgment and a knowledge of the increasing globalization of the economy and the growth of the hidden economy—factors for which information sources either do not exist or, if they exist, are not reliable. Therefore, the reader is left with a sighting of the Promised Land and the knowledge of the mine field that must be traversed to reach it.

In all, I find *Understanding the New Economy* to be an interesting and valuable tool to help students of the economy increase both their understanding of and ability to use available sources of economic data. For students of personal finance or, particularly, personal investment management, the book would aid their understanding of business cycles and their abilities to use available economic information. However, the complex dynamics of the political economies of the world in the 1990s are evasive at best. Given this, the do-it-yourself economic harbinger, while finding some enlightenment in the pages of Mr. Malabre's book, should view the light as that of a small train entering a long, dark tunnel. *Understanding the New Economy* provides a gateway to a better understanding of economic

data, but there are many miles, curves, and unknown territory between that gateway and the reader's exit to competence.

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Bell, D. E., H. Raiffa, and A. Tversky (editors), *Decision Making: Descriptive, Normative, and Prescriptive Interactions*. Cambridge, MA: Cambridge University Press, 1988, 623 pp., \$65.00 (hardback), \$29.95 (paper).

This book is a collection of papers presented at a conference of the same title held at the Harvard Business School during June 16-18, 1983. The purpose of the conference was to initiate communication among the various disciplines engaged in decision analysis to promote unification of the field.

The editors attribute the lack of unity in decision analysis to the traditional dichotomy between "descriptive" and "normative" research and the fact that each branch has different disciplinary backgrounds. Descriptive decision analysis (psychology and behavioral sciences) is concerned with how people make decisions and is, therefore, evaluated by its consistency with empirically observed choices. Normative decision analysis (statistics, mathematics, and economics) deals with how people *should* make decisions to achieve various objectives and is, thus, evaluated by its ability to provide theoretically appealing idealizations of rational choice. The editors create a trichotomy by adding a "prescriptive" research branch (operations research and management sciences) that is concerned with how to improve the quality of decisions in practice and is judged by its pragmatic value in helping people make better decisions. One of the editors' underlying purposes is to create an identifiable niche for the prescriptive branch. The editors highlight the differences among the three branches with an example of how each would react to an observed failure in a cornerstone of rational choice, such as stochastic dominance (p. 18). The normative branch would view such a violation as a counterexample, the descriptive