

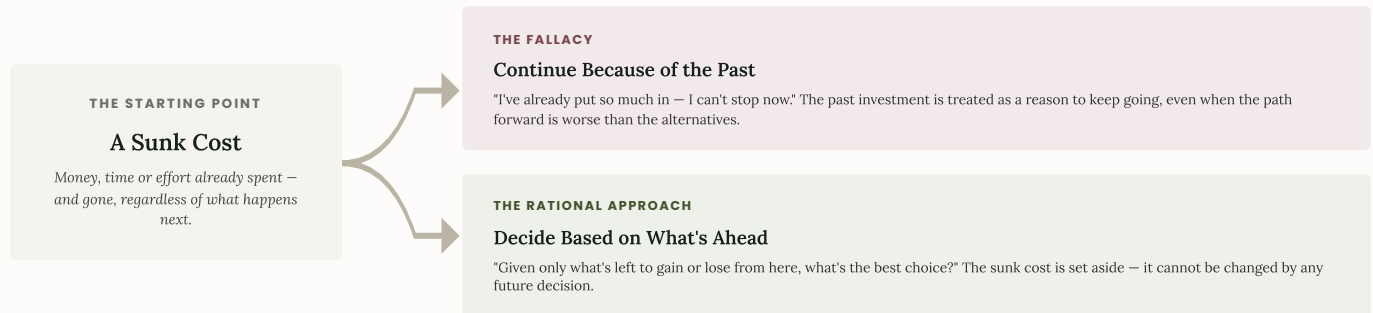
The Sunk Cost Fallacy

WHY WE THROW GOOD MONEY AFTER BAD

Named and empirically demonstrated by psychologists Hal Arkes and Catherine Blumer in their 1985 paper, "The Psychology of Sunk Cost," building on economic theory and Barry Staw's earlier work on escalation of commitment.

A sunk cost is money, time or effort already spent that cannot be recovered, no matter what you decide next. The sunk cost fallacy is our tendency to let that unrecoverable past investment influence a decision that should really be based only on future costs and benefits.

TWO WAYS TO USE THE SAME PAST INVESTMENT



Standard decision theory holds that only future, marginal costs and benefits should matter – but a past investment, however irrelevant, has a powerful psychological pull.

ARKES & BLUMER'S ORIGINAL EVIDENCE (1985)

In a field study at a university theatre, customers who paid full price for season tickets attended significantly more plays over the following months than those who received a discount – **even though all ticket holders had identical access to the same performances**. In a lab experiment, most participants chose a \$100 ski trip they would enjoy less over a \$50 trip they'd enjoy more, purely because more money had already been spent on the \$100 trip.

Arkes and Blumer proposed the effect stems partly from "the desire not to appear wasteful" – a norm many of us learn early in life.

A SIMPLE TEST

Ask: "If I were deciding today, with no past investment at all, would I choose this?" If the answer is no, the past investment likely shouldn't change that.

IT'S NOT JUST HUMAN

A 2018 study (Sweis et al., *Science*) found sensitivity to sunk costs in mice and rats as well as humans, suggesting it may reflect a deep, evolved decision-making mechanism, not simple irrationality.

RELATED BIASES

Closely related to loss aversion and status quo bias, and often discussed alongside "escalation of commitment" in organisational and project settings.

WHERE IT SHOWS UP

Staying in a situation "because of how long it's been"

Finishing a bad meal because you already paid

Continuing a doomed project or investment

Staying in a career path out of years already spent

Watching a disappointing film to the end

Escalating commitment in organisations and governments

Reflection

Use the questions below to consider how this applies to you.

1 · WHERE MIGHT I BE CONTINUING SOMETHING BECAUSE OF WHAT I'VE ALREADY PUT IN?

2 · IF I WERE STARTING TODAY, WOULD I CHOOSE THIS PATH AGAIN?

3 · WHAT WOULD IT LOOK LIKE TO DECIDE BASED ONLY ON WHAT'S AHEAD?

SOURCES

Arkes, H. R. & Blumer, C. (1985). The psychology of sunk cost. *Organizational Behavior and Human Decision Processes*, 35(1), 124–140.
Sweis, B. M. et al. (2018). Sensitivity to "sunk costs" in mice, rats, and humans. *Science*, 361(6398), 178–181.