

What is the 'sunk cost fallacy'? Is it ever a good thing?

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Credit: [Eugene Shelestov/Pexels](#)

Have you ever encountered a subpar hotel breakfast while on holiday? You don't really like the food choices on offer, but since you already paid for the meal as part of your booking, you force yourself to eat something anyway rather than go down the road to a cafe.

[Economists](#) and [social scientists](#) argue that such behavior can happen due to the "sunk cost fallacy"—an inability to ignore costs that have already

been spent and can't be recovered. In the hotel breakfast example, the sunk cost is the price you paid for the hotel package: at the time of deciding where to eat breakfast, such costs are unrecoverable and should therefore be ignored.

Similar examples range from justifying finishing a banal, half-read book (or half-watched TV series) based on prior time already "invested" in the activity, to being less likely to quit exclusive groups such as sororities and sporting clubs the more [effort it took to complete the initiation ritual](#)

While these behaviors are not rational, they're all too common, so it helps to be aware of this tendency. In some circumstances, you might even use it for your benefit.

Sunk costs can affect high-stakes decisions

While the examples above may seem relatively trivial, they show how common the sunk cost fallacy is. And it can affect decisions with much higher stakes in our lives.

Imagine that Bob previously bought a [house](#) for \$1 million. Subsequently, there's a nationwide housing market crash. All houses are now cheaper by 20% and Bob can only sell his house for \$800,000. Bob's been thinking of upgrading to a bigger house (and they are now cheaper!), but will need to sell his existing house to have funds for a down payment.

However, he refuses to upgrade because he perceives a loss of \$200,000 relative to the original price he paid of \$1 million. Bob is committing the sunk cost fallacy by letting the original price influence his decision making—only the house's current and projected price should matter.

Bob might be acting irrationally, but he's only human. Part of the reason we may find it difficult to ignore such losses is because losses are psychologically more salient relative to gains—this is known as [loss aversion](#).

While most of the evidence for the sunk cost fallacy comes from [individual decisions](#), it may also influence the decisions of groups. In fact, it is sometimes referred to as the [Concord fallacy](#), because the French and British governments continued funding the doomed supersonic airliner long after it was likely it would not be commercially viable.

Another example is drawn-out armed conflict that involves a large loss of lives for the losing side. Some may think it impossible to capitulate because the casualties will have "died in vain."

Knowing about sunk costs can help you

If you find yourself justifying behavior due to costs you've paid in the past rather than circumstances of the present, or predictions of the future, it's worth checking yourself.

Identifying sunk costs allows you to cut your losses early and move on, rather than perpetuating larger losses. This is apparent in the housing example: the larger the crash, the cheaper the bigger house; and yet the larger the crash, the greater the perceived loss from selling the existing house. Hence, the greater the loss in opportunity inflicted by the sunk cost fallacy.

If you find it difficult to overcome the sunk cost fallacy, it may help to delegate such decisions to others. This may include the decision of whether to [go to a buffet](#) or subscribe to Netflix, with the latter potentially being a double whammy: one may feel compelled to binge-

watch due to the flat fee structure and, as mentioned earlier, to finish mediocre series once halfway through.

Use sunk costs to your advantage

A second, less obvious benefit is actively using the fallacy to your advantage. For example, many gym memberships require upfront payments regardless of how much you use the facilities. If you find it hard to ignore sunk costs, choosing gym memberships that have large upfront fees and minimal pay-per-usage fees may be a way to [commit yourself](#) to a regular gym habit.

This can also apply to other activities that involve short-term pain for long-term gain—for example, paying for an [online course](#) will make you more likely to stick with it than if you found a free course.

But be warned, this doesn't work for everything: it seems that spending wildly on a [wedding ceremony or engagement ring](#) doesn't have a "sunk cost" effect—it fails to increase the likelihood of staying married.

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