

15. Hastie and Dawes 2010, The sunk cost fallacy

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PHIL 1555, Rationality

The sunk cost fallacy: You *honor sunk costs* when you “behave as if a nonrefundable expense is equivalent to a current investment”.

Examples:

Ski trip: You’ve paid \$90 for ski tickets and driven to the mountain. But it turns out it’s cold, icy, and you and your friend are both feeling miserable physically. You’re inclined to think that at this point you’d prefer to just drive home and watch a movie rather than attempt to ski. But your friend points out that you’ve already paid for the tickets, and it’d be a shame to waste them. So you decide to ski.

War: “You’ve got to think logically and realistically. Too much money’s been spent, too many troops are over here, too many people had too many hard times not to kick somebody’s ass”

Public works: “Completing the Tennessee-Tombigbee is not a waste of taxpayers’ dollars. Terminating the project at this late stage of development would, however, represent a serious waste of funds already invested.”

Investment: “I have already invested so much in the Concorde airliner... that I cannot afford to scrap it now.”

What does this mean? If you’ve already made the current investment, then it’s a sunk cost. If you haven’t, then how is it equivalent?

First day of the 1991 Gulf war.

Arguing for completion of artificial waterway that would, by current estimates, be worth less than the amount of money required to complete it.

What could the sunk cost fallacy be, such that (1) these are plausibly examples of it, and (2) it is plausibly irrational?

What exactly is irrational, according to decision theory?

- Only decide based on *future* consequences? Not clear.
 - i) Going to be charged for ski tickets in future.
 - ii) Uncle’s dying wish was that you’d go skiing together.
- Only decide based on *differential* consequences.
 - Sunk costs already “priced in” to all potential outcomes.

But already locked in.

Q: Are the above cases clear examples of that? Why or why not?

Consider a hard case:

Theater subscription: People bought tickets for Ohio University Theater series. Randomly $\frac{1}{3}$ paid \$15 for the subscription, $\frac{1}{3}$ paid \$13 for it, and $\frac{1}{3}$ paid \$8 for it. Those who paid the full price attended more regularly than those who paid the discounted price.

Arkes and Blumer 1985

What are some explanations of this effect that are not necessarily irrational? Discuss!