

The Sunk Cost Fallacy: Kelly 2004

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You **honor sunk costs** \approx you take the fact that you (or others) have invested resources into achieving a goal as a reason in favor of it.

Example: Ski trip. Can't remember whether paid or got ticket for free. Could answer tip scales?

The conventional wisdom (e.g. Hastie and Dawes):

- 1) **Descriptive claim:** People often honor sunk costs; and
- 2) **Normative claim:** Doing so is irrational.

Why (1)? Look out how people make decisions!

Why (2)? The past is the past! The factors that should determine your decision are the things you can *change*. You can't change the past, so it shouldn't affect your decision.

Idea: we'd make better decisions with memory-wipe pill.

Problems: Evidential effects; outcome effects

Individual reasons

Actions now and their future consequences *can* change the (proper interpretation of) the past. And that proper interpretation can matter!

- Doctor working to save a stabbing victim determines whether the attacker committed assault or murder.
- Historical events that achieve their true significance much later.
- Within a life, later events can alter the whole narrative structure.

Generally: often seems reasonable to have **redemptive preferences**: prefer that past sacrifices not be in vain.

Your friend dies suddenly. While going through her things, you discover a manuscript she was working on secretly. Do you try to get it published? Surely how much time/energy/care she invested in it could affect your decision!

Is this convincing?

Social reasons

- Example: could it be rational to be disposed to be overcome with emotion and act unreasonably?
- Game theory: those who honor sunk costs less exploitable.
- Reputation: those who honor sunk costs will have better reputations (for competence or steadfastness).

Kelly's Conclusion: "Honor sunk costs" understood in a *wide* or *narrow* way.

→ If wide, plenty of evidence for (1), but (2) is false.

→ If narrow, (2) is true, but little if any evidence for (1).

Kelly: either (2) is false, or we lack evidence for (1).
E.g. Arkes and Blumer 1985.

Survival of boy who becomes dictator.
Met partner because you failed exam.

Motte and Bailey fallacy

What do people think?