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# ***Skill 1: Noticing Sunk Costs***

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**Example.** Bob is cleaning his car. After carefully picking out leaf-fragments and bits of dirt for two hours, Bob considers just taking the car to the cleaners. They have a special this week where they will vacuum the car's whole interior for just \$6, well under the value Bob normally puts on his time. But, Bob thinks, if he takes his car to the cleaners now, the two hours he just spent picking out dirt-bits will have been pointless

**Sunk cost?**

☒ Yes / No

**Sunk cost fallacy?**

☒ Yes / No



1. Jo drives to a crafts store to buy some modeling clay, only to find out that Michaels is out of stock. She'd feel bad about having made the trip if she didn't get anything, so she buys some markers instead.

**Sunk cost?**

Yes / No (underline location)

**Sunk cost fallacy?**

Yes / No (circle reasoning)



## Answer to 1.

Jo drives to a crafts store to buy some modeling clay, only to find out that Michaels is out of stock. (She'd feel bad about having made the trip if she didn't get anything, so she buys some markers instead.)

**Sunk cost?**

☒ Yes / No

**Sunk cost fallacy?**

☒ Yes / No

To find the sunk cost, we look for spent resources that cannot be recovered. Jo's drive to the crafts store used time, gas money, *etc.* that she cannot recover. So her drive is a sunk cost.

To find the sunk cost *fallacy*, we look for people letting already-sunk costs affect their decisions about the future (*e.g.*, acting as though they can "make those costs not be wasted"). Jo's decision to buy markers is a prototypical example of this. She wants to buy markers so her trip won't feel like a waste—but the time and gas-money are already gone, and Jo's buying markers won't change that. (Jo should only buy markers if she prefers having markers to not buying them, given that she's already at Michaels—and if that's really how she feels, why wouldn't Jo have previously been planning to buy markers along with her modeling clay?)

2. Luke is buying clothes. He has \$30 worth of clothes in his cart, which includes everything he needs; but he finds himself tempted to look for more items, lest he miss out on a current sale for "\$5 off on purchases over \$50".

**Sunk cost?**

Yes / No (underline location)

**Sunk cost fallacy?**

Yes / No (circle reasoning)



## Answer to 2.

Luke is buying clothes. He has \$30 worth of clothes in his cart, which includes everything he needs; but he finds himself tempted to look for more items, lest he miss out on a current sale for "\$5 off on purchases over \$50".

**Sunk cost?**

Yes / ☒ No

**Sunk cost fallacy?**

Yes / ☒ No

Luke didn't spend anything to produce the "\$5 off on purchases over \$50" sale—it was just going on at the store. So there are no sunk costs in the problem, and his brain's reluctance to 'miss out' on the sale is not an example of the sunk cost fallacy (though, if he doesn't need the items, he may well be being some other sort of irrational).

3. After David signs a 12-month lease for his new apartment, an even better apartment appears on Craigslist. "Too bad I can't rent this one," thinks David. "If only I'd known in advance! If only I could go back in time and do things differently! But now that I already have a place, it isn't worth paying a whole second time just to get one slightly better."

**Sunk cost?**

Yes / No (underline location)

**Sunk cost fallacy?**

Yes / No (circle reasoning)



## Answer to 3.

After David signs a 12-month lease for his new apartment, an even better apartment appears on Craigslist. "Too bad I can't rent this one," thinks David. "If only I'd known in advance! If only I could go back in time and do things differently! But now that I already have a place, it isn't worth paying a whole second time just to get one slightly better."

**Sunk cost?**

☒ Yes / No

**Sunk cost fallacy?**

Yes / ☒ No

The sunk cost involved is the already-signed lease on the first, slightly less good apartment—so, David is stuck paying rent, and can't get that money back.

However, this is not an example of the sunk cost fallacy. David's rent is sunk, but the sunk money has changed his situation in a concrete way—he now has an apartment, and doesn't need to pay anything more to occupy that one. The already-rented apartment correctly influences David's choice not to spend additional money on another apartment.



4. Henry paid for a season of tennis lessons, but then finds out that he doesn't like tennis very much. There's a free basketball class being offered by the local community center that would probably be equally good exercise. But the tennis lessons cost \$500 and, at Henry's income, that is not a sum he can afford to lightly throw away.

**Sunk cost?**

Yes / No (underline location)

**Sunk cost fallacy?**

Yes / No (circle reasoning)



## Answer to 4.

Henry paid for a season of tennis lessons, but then finds out that he doesn't like tennis very much. There's a free basketball class being offered by the local community center that would probably be equally good exercise. But the tennis lessons cost \$500 and, at Henry's income, that is not a sum he can afford to lightly throw away.

**Sunk cost?**

☒ Yes / No

**Sunk cost fallacy?**

☒ Yes / No

Henry's \$500 isn't coming back, no matter what he does now. So it is a sunk cost.

It's futile to take tennis lessons he now doesn't want in the hopes of "un-wasting" his already-sunk money. (This is the sunk costs fallacy because Henry talks as though the sunk \$500 is relevant to his current "tennis or basketball?" decision, but, since the \$500 is irrevocably gone, it is no longer relevant.)

5. Jill has \$100/month set aside as her "splurge budget"—to be used exclusively on ice cream, movie tickets, and other fun things. Unfortunately, this month she has already spent \$85 of her total. Thus, when a Wilco concert comes up—an opportunity she would normally jump at—Jill sadly turns down the \$60 tickets.

**Sunk cost?**

Yes / No (underline location)

**Sunk cost fallacy?**

Yes / No (circle reasoning)



## Answer to 5.

Jill has \$100/month set aside as her "splurge budget"—to be used exclusively on ice cream, movie tickets, and other fun things. Unfortunately, this month she has already spent \$85 of her total. Thus, when a Wilco concert comes up—an opportunity she would normally jump at—Jill sadly turns down the \$60 tickets.

**Sunk cost?**

☒ Yes / No

**Sunk cost fallacy?**

Yes / ☒ No

Jill has already spent \$85 on fun things this month, and can't get that money back.

Her thinking, however, is not fallacious - Jill's past spending affected how much money she now has left, and it's reasonable for Jill to base her current decisions on the amount of money remaining in her splurge budget.

6. Two pages into a ten-page essay on the French Revolution, Sharon is finding the work difficult and boring. Sharon wonders if it would be better to try something more fun, like an essay on flower biology, which would be just as acceptable to her teacher. But she's already spent two hours filling a copy of Simon Schama's *Citizens* with all the bookmarks she needs. That work will help her write an essay about the French Revolution, and won't help her write an essay about flower biology.

**Sunk cost?**

Yes / No (underline location)

**Sunk cost fallacy?**

Yes / No (circle reasoning)



## Answer to 6.

Two pages into a ten-page essay on the French Revolution, Sharon is finding the work difficult and boring. Sharon wonders if it would be better to try something more fun, like an essay on flower biology, which would be just as acceptable to her teacher. But she's already spent two hours filling a copy of Simon Schama's *Citizens* with all the bookmarks she needs. That work will help her write an essay about the French Revolution, and won't help her write an essay about flower biology.

**Sunk cost?**

☒ Yes / No

**Sunk cost fallacy?**

☒ Yes / No

Sharon cannot get her two hours back—that resource is sunk. Sharon is committing the sunk costs fallacy because she is acting as though her already-sunk two hours is relevant to future decision-making. How can you tell? It's true that the time Sharon spent bookmarking her copy of *Citizens* will help her write a French Revolution essay, and not a flower-biology essay—the work she put in did change her situation. (And, of course, a changed situation often is relevant to future decision-making.) But it's stated that Sharon is finding the essay uncomfortably difficult even after having set up her bookmarks - doing the bookmarking didn't change her situation enough to make "staying the course" a better option than changing her mind. More importantly, thinking about the two hours she spent reading *Citizens* is looking backward to the past. Sharon should be thinking, "Given that I have a bookmark-laden copy of *Citizens*, is it easier to write an essay about the French Revolution or flower biology?" Rather than thinking about how she spent two hours doing the bookmarks.

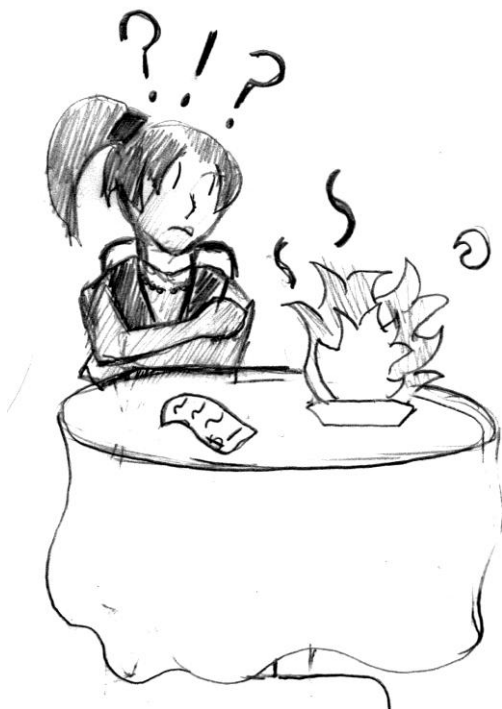
7. Mandy, treating herself to a meal at a fancy restaurant, orders a Chocolate Flambé Surprise. When it arrives, she's surprised to find that chocolate doesn't taste good after it's been set on fire. Should she eat it anyway? It would be one thing if this was just a dollar cupcake from a bakery, but this dessert cost \$15—before tax and tip! On the other hand, Mandy has a policy against "wasting" calories—she thinks that if you eat something with lots of calories, it had better be something delicious.

**Sunk cost?**

Yes / No (underline location)

**Sunk cost fallacy?**

Yes / No (circle reasoning)



## Answer to 7.

Mandy, treating herself to a meal at a fancy restaurant, orders a Chocolate Flambé Surprise. When it arrives, she's surprised to find that chocolate doesn't taste good after it's been set on fire. Should she eat it anyway? It would be one thing if this was just a dollar cupcake from a bakery, but this dessert cost \$15—before tax and tip! On the other hand, Mandy has a policy against "wasting" calories—she thinks that if you eat something with lots of calories, it had better be something delicious.

**Sunk cost?**

☒ Yes / No

**Sunk cost fallacy?**

☒ Yes / No

Mandy's \$15 is already sunk; wasting lots of calories on non-delicious food won't change that. If you were distracted by the part where Mandy thinks about how you shouldn't "waste" calories on non-delicious food, remember that the sunk cost fallacy is not "any sentence containing the word 'waste' in it" - that's not what you want your brain to recognize.



8. Joe's friend asks him if he's ever considered switching careers. "Are you kidding?" asks Joe, "I had to study and focus for 10 years just to be considered to get an entry level position in my current firm. If I switch careers now, what will the last ten years of my life be worth?"

**Sunk cost?**

Yes / No (underline location)

**Sunk cost fallacy?**

Yes / No (circle reasoning)



## Answer to 8.

Joe's friend asks him if he's ever considered switching careers. "Are you kidding?" asks Joe, "I had to study and focus for 10 years just to be considered to get an entry level position in my current firm. If I switch careers now, what will the last ten years of my life be worth?"

**Sunk cost?**

☒ Yes / No

**Sunk cost fallacy?**

☒ Yes / No

Joe's thoughts don't seem to be assessing and weighing the current value of his experience, or the expected value of any alternatives; he doesn't talk about his future options or the future consequences of his choices. All that Joe weighs and quantifies is the past costs he has already spent. And, of course, those irrecoverable costs are irrelevant to what Joe should do (although the job options that those costs bought him may be relevant).

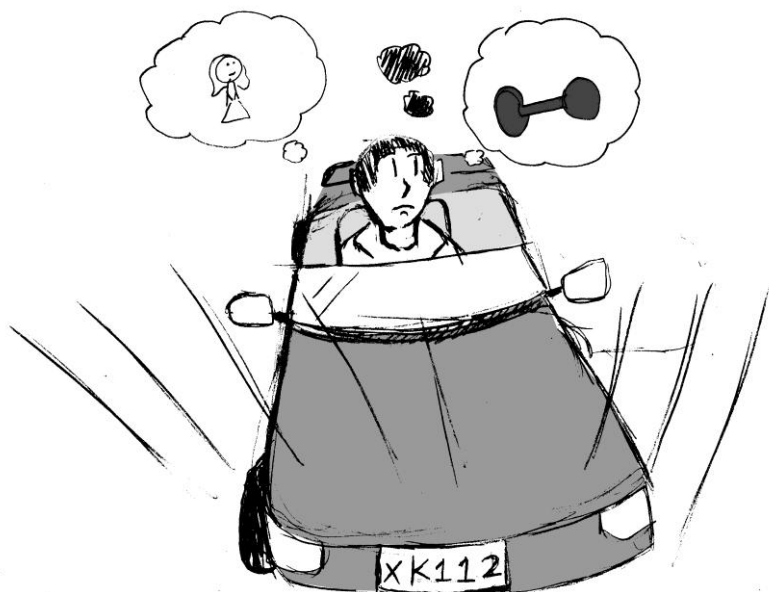
9. After Jim went to all the trouble of getting his exercise clothes on and driving down to the gym, Sandra called to ask if he wanted to go to the movies. "Not right now," said Jim; "I just drove to the gym, and if I come back without exercising, then, later, I'll have to drive here all over again."

**Sunk cost?**

Yes / No (underline location)

**Sunk cost fallacy?**

Yes / No (circle reasoning)



## Answer to 9.

After Jim went to all the trouble of getting his exercise clothes on and driving down to the gym, Sandra called to ask if he wanted to go to the movies. "Not right now," said Jim; "I just drove to the gym, and if I come back without exercising, then, later, I'll have to drive here all over again."

**Sunk cost?**

☒ Yes / No

**Sunk cost fallacy?**

Yes / ☒ No

The reasoning here is not sunk-cost fallacious. The minutes Jim "sunk" driving him to the gym have left him in a useful situation; the situation of already being at the gym in his exercise clothes. Jim isn't silly to want to make use of this situation while he has it. And not wanting to drive to the gym again later, is considering future consequences.

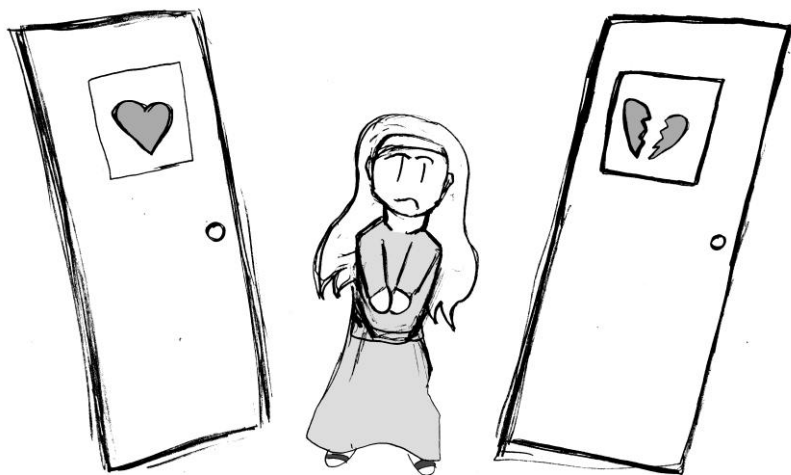
**10.** Sandra is starting to grow bored with her current boyfriend. Is it time to move on? She left her job in Los Angeles and moved to New York, just so that she could be with him—but they haven't had a really interesting conversation in months.

**Sunk cost?**

Yes / No (underline location)

**Sunk cost fallacy?**

Yes / No (circle reasoning)



## Answer to 10.

Sandra is starting to grow bored with her current boyfriend. Is it time to move on? She left her job in Los Angeles and moved to New York, just so that she could be with him—but they haven't had a really interesting conversation in months.

**Sunk cost?**

☒ Yes / No

**Sunk cost fallacy?**

☒ Yes / No

The time and effort it took to move are already gone and not coming back. Sandra's old job is already gone, also.

Sandra is acting as though her past costs are relevant to her present decision.

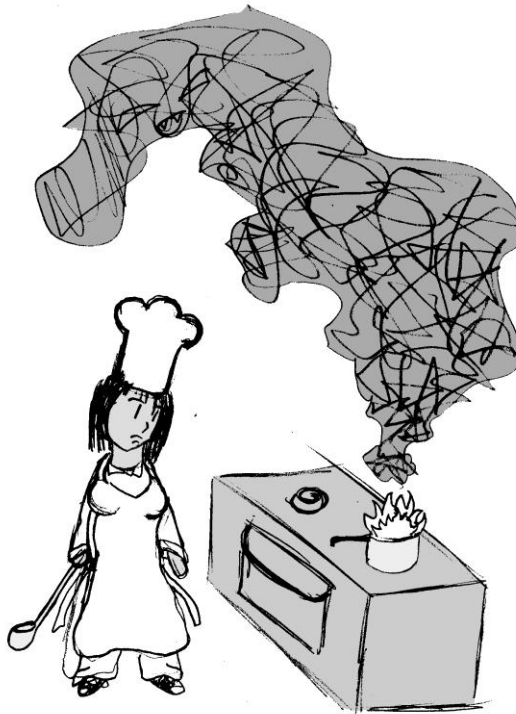
11. Ellery burns the soup she was cooking, rendering it less than tasty. Ellery wouldn't eat soup like this if it were free, but in economic terms, the ingredients she used to make the soup have a replacement cost of \$12—that is, regardless of how much she originally spent, it would now cost Ellery a total of \$12 to exactly replace the meat, vegetables, and other items from her kitchen that she used up in the course of burning the soup.

**Sunk cost?**

Yes / No (underline location)

**Sunk cost fallacy?**

Yes / No (circle reasoning)



## Answer to 11.

Ellery burns the soup she was cooking, rendering it less than tasty. Ellery wouldn't eat soup like this if it were free, but in economic terms, the ingredients she used to make the soup have a replacement cost of \$12—that is, regardless of how much she originally spent, it would now cost Ellery a total of \$12 to exactly replace the meat, vegetables, and other items from her kitchen that she used up in the course of burning the soup.

**Sunk cost?**

☒ Yes / No

**Sunk cost fallacy?**

☒ Yes / No

This is an example of the sunk cost fallacy even though it contains sophisticated-sounding phrases like "in economic terms" and "replacement costs." Eating burnt soup won't give Ellery her time or ingredients back, even if the problem says how much it would cost to replace them. The key sentence is, "Ellery wouldn't eat soup like this if it were free," and that tells you everything you need to know. (It could theoretically be that—even though Ellery is said to be working "in a nice kitchen"—her budget is so exactly tight that she can afford the ingredients to make \$12 soup the first time, but then after spending \$12 and burning the resulting soup, her new bank account balance has now shifted the marginal value of money such that she now should eat soup like this if it's free. But focusing on incredibly improbable objections is a terrible mental habit—probability theory dictates that objections of tiny probability should result in only tiny discounts to the evidence.)



12. After much begging from her son Tim, Peggy agrees to take Tim to a baseball game. Once they get there, however, Tim gets bored and wants to go home. "Go home?" Peggy says in a stern voice. "Those tickets were expensive, Tim!"

**Sunk cost?**

Yes / No (underline location)

**Sunk cost fallacy?**

Yes / No (circle reasoning)



## Answer to 12.

After much begging from her son Tim, Peggy agrees to take Tim to a baseball game. Once they get there, however, Tim gets bored and wants to go home. "Go home?" Peggy says in a stern voice. "Those tickets were expensive, Tim!"

**Sunk cost?**

☒ Yes / No

**Sunk cost fallacy?**

☒ Yes / No

Peggy may have some sensible persuasive goal in saying what she says to Tim (*e.g.*, maybe she wants Tim to be more careful about requesting future expensive items); she may want to teach him a lesson by making him finish watching the game. Nonetheless, her statement does technically exemplify the sunk cost fallacy, since the money is already gone either way, and watching a boring baseball game won't give them their money back.

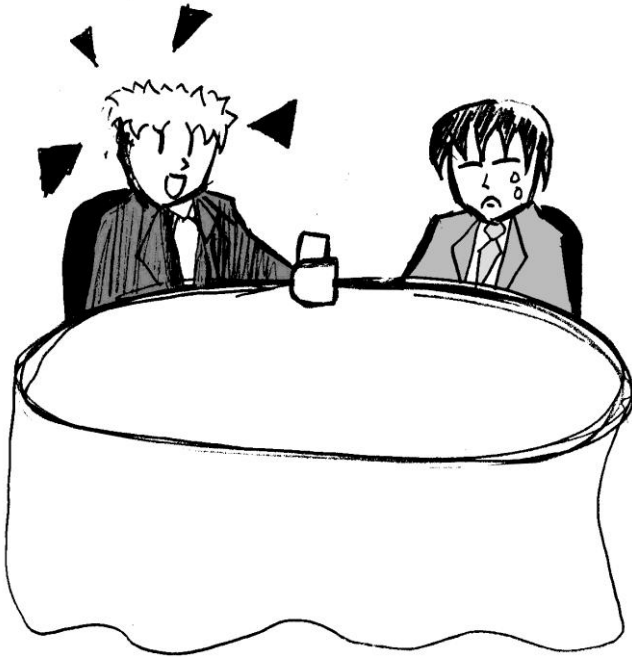
13. If Greg had realized Sharon would be throwing a party, he would absolutely have kept his schedule free for that. Sharon's parties are the best. But as it happens, Greg had already promised Joe they'd have lunch—a promise Joe has been counting on all week—and so, reluctantly, Greg skips the party and has lunch with Joe.

**Sunk cost?**

Yes / No (underline location)

**Sunk cost fallacy?**

Yes / No (circle reasoning)



## Answer to 13.

If Greg had realized Sharon would be throwing a party, he would absolutely have kept his schedule free for that. Sharon's parties are the best. But as it happens, Greg had already promised Joe they'd have lunch—a promise Joe has been counting on all week—and so, reluctantly, Greg skips the party and has lunch with Joe.

**Sunk cost?**

☒ Yes / No

**Sunk cost fallacy?**

Yes / ☒ No

This is a borderline case, but this kata-writer would consider Greg's promise a sunk cost. He spent a resource (his word as to what he'd be doing), and he can't go back in time and change that or spend his "ability to promise" some other way. (If you didn't consider this a sunk cost, don't worry about it.)

This is not an example of the sunk cost fallacy. A promise is something that happens in the past, but honoring a promise isn't the same concept as honoring a sunk cost. It isn't unreasonable for Greg to want to keep his word, nor for Greg to want to avoid disappointing Joe. Why are promises different? Because it's good to be the sort of person people can trust, and keeping one's promises helps with that. Feeling appreciation for past favors, and wanting to repay past kindnesses, is similarly different: that, too, helps with being the sort of person one can trust. (In contrast, trying to "make past efforts not have been wasted" does not aid trustworthiness or anything else.