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***Skill 2: Transform  
Sunk Costs to  
Purchased Options***

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**Example.** Ophelia goes to an International House of Pancakes and sees that the menu offers a stack of 3 pancakes and a stack of 6 pancakes, and she decides to pay an extra \$2 for the stack of 6 pancakes. Little does she realize how large IHOP's pancakes are. When the plate arrives at her table, "6 pancakes" proves to be twice as much pancake as she imagined. She doesn't like the idea of just leaving some of her meal untouched. Still, halfway through her heap of flapjacks, she wonders if she wants to finish.

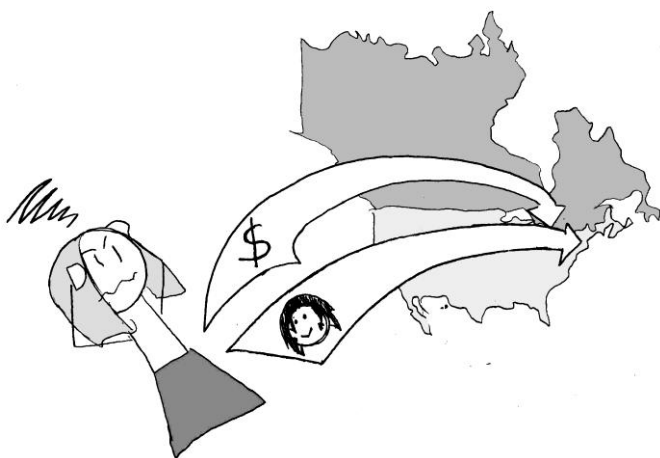
**Purchased option:** *Ophelia now has the option to eat 3 pancakes for free on an already-full stomach, or leave it where it is and go on with her day.*



1. Betsy is a Canadian architect who's spent five years married to Maria, an American, and Betsy finally has gotten hold of a green card after two years of waiting. With it, she can move to the United States, probably Maria's home state of Massachusetts, and start working there. But then, a very good job offer arrives in Betsy's e-mail inbox, a several-year contract to work on transforming the skyline of Toronto. It pays more than what she was aiming for in the States, and it'll last longer than the sorts of freelance projects she could have picked up in Massachusetts. But if she doesn't move to the US now and maintain residency for at least six months of the year, she'll lose the green card that she spent two years waiting for. Maria will support her whatever she wants to do...

**Underline the sunk cost.**

**Purchased option:**



## Answer to 1.

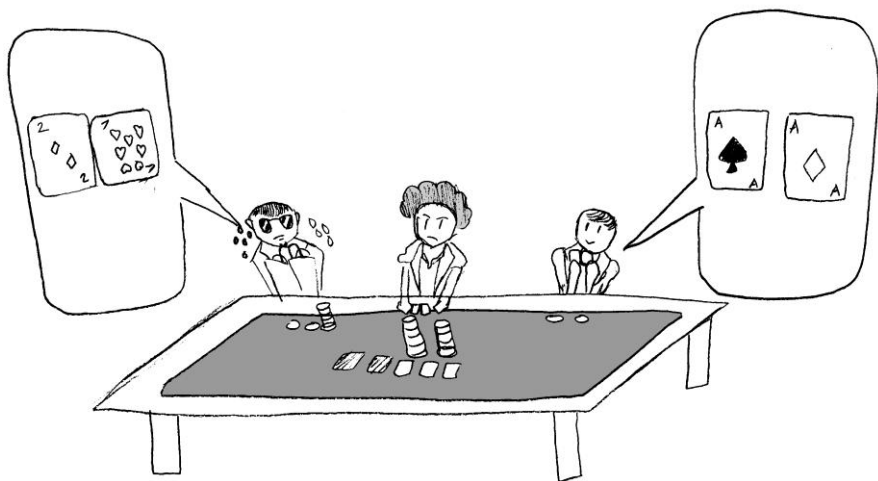
Betsy is a Canadian architect who's spent five years married to Maria, an American, and Betsy finally has gotten hold of a green card after two years of waiting. With it, she can move to the United States, probably Maria's home state of Massachusetts, and start working there. But then, a very good job offer arrives in Betsy's e-mail inbox, a several-year contract to work on transforming the skyline of Toronto. It pays more than what she was aiming for in the States, and it'll last longer than the sorts of freelance projects she could have picked up in Massachusetts. But if she doesn't move to the US now and maintain residency for at least six months of the year, she'll lose the green card that she spent two years waiting for. Maria will support her whatever she wants to do...

**Purchased option:** Betsy happens to be in possession of a green card, which grants her certain entitlements, and she's also a Canadian citizen, which grants her others. She has the option to live in Canada and take a guaranteed, appealing job, or move to the United States with Maria and look for work there.

2. Louis is playing his weekly poker game with some of his friends, and he's been betting heavily on a mediocre hand, hoping to scare out the other players; half of them are already folded and sipping their beer and spectating. But now it looks like Louis's friend Warren has better cards and knows it—Warren's lousy at bluffing and probably isn't just doing the same thing Louis is. \$65 worth of chips representing Louis's money is sitting in the middle of the table, waiting to be retaken along with everyone else's bets, but only risking even more cash can let Louis rake it in. Louis isn't five years old; he can't just take his chips and go home...

**Underline the sunk cost.**

**Purchased option:**



## Answer to 2.

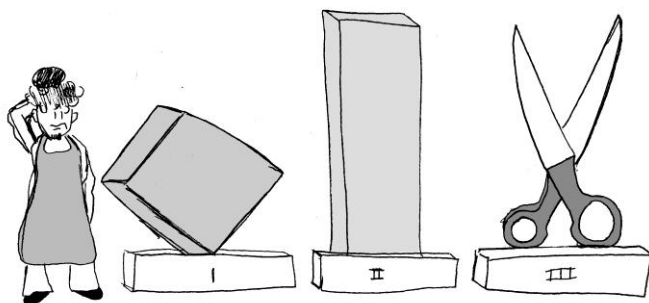
Louis is playing his weekly poker game with some of his friends, and he's been betting heavily on a mediocre hand, hoping to scare out the other players; half of them are already folded and sipping their beer and spectating. But now it looks like Louis's friend Warren has better cards and knows it—Warren's lousy at bluffing and probably isn't just doing the same thing Louis is. \$65 worth of chips representing Louis's money is sitting in the middle of the table, waiting to be retaken along with everyone else's bets, but only risking even more cash can let Louis rake it in. Louis isn't five years old; he can't just take his chips and go home...

**Purchased option:** Louis has the chance to bet (marginal) money on Warren having a worse hand than he seems to think, and Louis can potentially win the whole pot by betting this additional money, but Warren may raise in turn.

3. Victor came up with a cool idea for a life-sized, abstract sculpture, a year ago, and has put a lot of mixed media into it. The sculpture, "Untitled," is about half-done now, and while he'd sort of like to have it finished and put it on his porch, it's going to cost at least \$50 in new plaster and spray paint and take about ten hours of additional work. In the last year, Victor has developed as an artist and had plenty of other ideas (such diverse ideas as "Untitled 2" and "Untitled 3"). These might be better ideas, and they're certainly more efficient in supplies and time, and they could also benefit from those hours and dollars.

**Underline the sunk cost.**

**Purchased option:**



## Answer to 3.

Victor came up with a cool idea for a life-sized, abstract sculpture, a year ago, and has put a lot of mixed media into it. The sculpture, "Untitled", is about half-done now, and while he'd sort of like to have it finished and put it on his porch, it's going to cost at least \$50 in new plaster and spray paint and take about ten hours of additional work. In the last year, Victor has developed as an artist and had plenty of other ideas (such diverse ideas as "Untitled 2" and "Untitled 3"). These might be better ideas, and they're certainly more efficient in supplies and time, and they could also benefit from those hours and dollars.

**Purchased option:** Victor can get a complete "Untitled" for only about \$50 and ten hours.



4. Simon is one of two players left in the huge family *Monopoly* game, and it's coming up on midnight; they have been playing for hours. Simon owns one railroad and one mortgaged Baltic Avenue, but he's been landing his hat token on a lot of lucky Chance and Community Chest cards, so he hasn't actually lost yet. The other player would take a forfeit, if he offered...

**Underline the sunk cost.**

**Purchased option:**



## Answer to 4.

Simon is one of two players left in the huge family *Monopoly* game, and it's coming up on midnight; they have been playing for hours. Simon owns one railroad and one mortgaged Baltic Avenue, but he's been landing his hat token on a lot of lucky Chance and Community Chest cards, so he hasn't actually lost yet. The other player would take a forfeit, if he offered...

**Purchased option:** Simon has the option to complete the game in only some unknown number of sleep-deprived minutes, but this option is not worth much.

5. Evelyn has been playing Task Manager 4 for an hour, and she's pretty good at it, so she's racked up 98,000 points. If she closes the game (which has no pause button) that will be her score for this session, and it'd put her at #11 on the high score chart, but her rate of point accumulation means that she could get to #10 (and therefore onto a fancier chart in a larger font) with just ten more minutes of play. That said, the eyestrain is getting to her, and she is beginning to question the value of spending all afternoon on a little Flash game in her browser.

**Underline the sunk cost.**

**Purchased option:**



## Answer to 5.

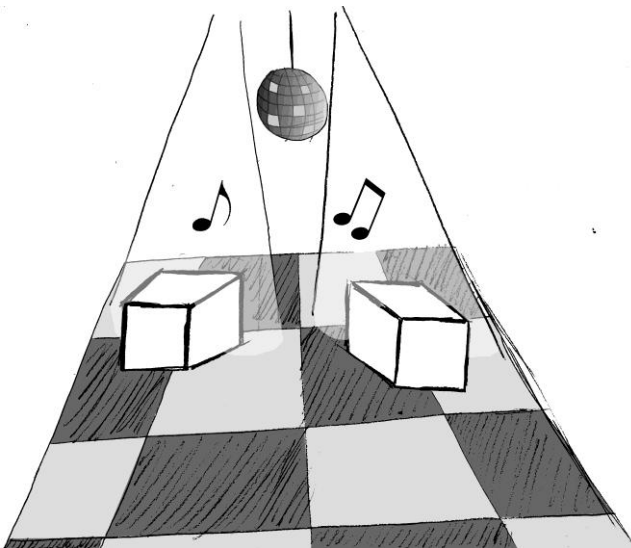
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**Purchased option:** Get onto the top 10 list for only ten minutes of play.

6. Misha is about to defend to his friend Rose, via an elegant analogy involving squaredancing that took a week to invent, his decision to abide by the Aquarius horoscope in the newspaper. Then it occurs to him that Rose, also an Aquarius, never reads the horoscopes and yet is undeniably more successful than he is. They're probably just as made-up and useless as she says. But after all that work to invent an elegant squaredancing analogy, he'd itch if he didn't tell it to Rose.

**Underline the sunk cost.**

**Purchased option:**



## Answer to 6.

Misha is about to defend to his friend Rose, via an elegant analogy involving squaredancing that took a week to invent, his decision to abide by the Aquarius horoscope in the newspaper. Then it occurs to him that Rose, also an Aquarius, never reads the horoscopes and yet is undeniably more successful than he is. They're probably just as made-up and useless as she says. But after all that work to invent an elegant squaredancing analogy, he'd itch if he didn't tell it to Rose.

**Purchased option:** None, except the opportunity to use an elegant squaredancing analogy to defend a wrong conclusion. Unless you really value the use of elegant squaredancing analogies, this isn't enough of a value to count as a purchased option. (The writer of this example would like to note that she was perhaps inordinately fond of the phrase "elegant squaredancing analogies," and couldn't possibly have omitted this exercise because then this wonderful phrase would have been wasted.)



