

# The 'sunk-cost fallacy'

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## Example 1: Movie

You've paid \$10 to get into the movie and it just plain stinks. The plot is ridiculous, the acting is terrible, the violence is excessive. But you've already watched half of it. Do you sit through the movie to the end or do you leave?

## Example 2: Car

Just a month ago, you spent \$2,000 getting your 10-year-old car's transmission rebuilt. Now you find out the car is leaking oil and needs a ring job. Do you spend the next thousand or buy a new car?

## Sunk cost

We've all encountered situations like these. We make a significant investment—of money or time—in some project, and it doesn't seem to be working out. Do we continue to “throw good money after bad” or do we “cut and run” and “stop wasting time”?

- What's the right way to think about such decisions?

# Sunk-cost fallacy

- The time or money you've already spent is gone. You can't reclaim it.
- Using a past investment to justify a future investment is what they call the "sunk-cost fallacy."

## U.S. involvement in Iraq

- US President Bush (July 4, 2006):  
“I’m not going to allow the sacrifice of 2,527 troops who have died in Iraq to be in vain by pulling out before the job is done.”