

Know “Sunk Cost” and be Rational

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Let me ask you one question. Suppose you were in the following situation. You wanted to watch a soccer game and bought an advance ticket for 7000 yen, because you thought the ticket was reasonable enough. However, on the very day of the game, you left the ticket at home. Oh my gosh! But please don't worry. Fortunately, you found you could buy another ticket for the same price at the stadium. To buy, or not to buy: that is the question. I mean, would you buy the ticket? Or, would you give up watching the soccer game and go back home? I guess some of you hesitate to decide which to choose.

Actually, this is an illustration of “sunk cost”, so today I'm going to talk about what is sunk cost and how we should deal with it. Sunk cost is a cost that has already been incurred so cannot be recovered; the money you've already paid, or the time you've spent, for example. Let us go back to the situation. In that case, sunk cost is the 7000 yen of the ticket you left at home, so the rational answer is to buy another ticket for 7000 yen again. Why? Why is it rational? Some of you may say, “If I bought the ticket again, I had to pay as much as 14000 yen! It's wasteful and irrational.” However, that is wrong, and this is how “Sunk Cost” negatively affects our rational decision-making. Remember, whether you went back home or not, the 7000 yen that you lost could never be recovered. It is no use crying over spilt milk, isn't it? Therefore, the fact that you left the ticket at home should never be considered and should be forgotten when you decide whether you buy another ticket. Of course sometimes you also have to take into

account your economic situation, but it is beneficial for you to buy things that you think are well worth the price. You should buy another ticket, just because you think the ticket is reasonable enough, as you thought when you bought the advance ticket.

In our daily life, there are many sunk costs, and because of them, we often make irrational judgements. For example, when we go to the movies, we are apt to keep watching movies all the time even if they seem to be boring for us. Some people may say, "I've already paid the ticket fee, so if I stop watching the movie, it means that I waste the fee! I have to keep watching it." However, the rational choice is to stop watching the movie and make good use of the rest of the time, because instead of doing what you don't want to do, it is much better for you to do what you really want to do.

Well, I've talked as if I were rational and have never made bad choices. But actually, I was liable to take irrational decisions before. Every time I went to an all-you-can-eat restaurant, I always eat too much in order to get my money's worth, and felt I would never go again. Maybe some of you have had a similar experience. However, I've changed my actions since I knew the concept of "sunk cost". I found that what restricted my action was the avoidance of loss. I was struggling to recover a cost, but in vain, because the cost that I paid could never be recovered, so was sunk. Then I start to really enjoy eating food instead of just eating too much, and sometimes I can choose to eat whatever I want without using an all-you-can-eat system. Since I found out this "sunk cost trick", I've become more rational than I used to be.

Now, I am speaking about various irrational judgement of us from a point of

“sunk cost” because I want you to be more rational than you were before you heard my speech. Be rational, why? In fact, I’ve already given you the answer. In the first example of soccer game, rationality enables us to determine the value of things properly and use money economically. In the second one of watching movies, it enables us to use time economically and do what we really want to do. And in the third one, it enables us to get rid of the restriction of our actions. That is why rationality can be beneficial for us in various aspects.

Be rational, but how? In order not to be blinded by sunk costs, and to avoid irrational judgements, what should we do? Actually, there are some solutions to this problem.

First, think only about the present situation and the future, and don’t look back on the past. We cannot change the decisions we have made, nor can we get back the things that we have lost. Try to make the best profit in the future, and we will not be negatively affected by sunk costs.

Second, think from another point of view that you’ve never had. Don’t think that we should keep watching the movies because we have paid the fee. Instead, think that we can use the rest of the time at will if we stop watching them. When you have some difficulty in making decisions, think what is already sunk and what you can do next. Changing our point of view will be helpful for us to be rational

And, what is most important is to be brave. Be brave. We often hesitate to

ignore the “Sunk Cost”, and it causes bad effects on our rational decision-making. Be brave enough not to be restricted by sunk cost. Be brave enough not to regret what you did in the past. Be brave enough to take the next step for the future. If you can do all these things, you will be able to save money, use money economically, or even time, and make rational judgements.

You will confront “sunk cost” situation many times in your daily life. Every time you face it, you stand on the crossroads; past or future, stay or change, irrational or rational. Which way do you want to choose?