Sunk Cost Fallacy

Imagine that you have paid for a concert ticket, but on the day you feel ill. Many people still go, because they do not want to waste the money. This is the sunk cost fallacy: we continue with something because of what we have already spent, not because of what we will gain. The money, time and effort already spent are gone, whatever we decide. Learning to see this trap helps people and organizations make smarter decisions.

1. What Is the Sunk Cost Fallacy?

A sunk cost is money, time or effort that has already been spent and cannot be recovered. Because it is gone whatever we choose, it should not decide what we do next. A good decision looks only at future costs and future benefits. The fallacy begins when we tell ourselves that we have invested too much to stop now. Then we keep adding resources to a losing path, and the losses grow.

Example: a person keeps eating at a buffet after feeling full, only because the meal was expensive.

At work: Omar, an operations manager, has spent eight months and a large budget on a new warehouse system that still does not work. His team says that stopping now would waste everything they have already spent.

2. Why It Happens

The psychologists Hal Arkes and Catherine Blumer studied this behaviour in 1985. They showed that the more people invest in something, the more likely they are to continue. In one of their studies, people who had paid full price for theatre season tickets went to more plays in the first half of the season than people who got a discount. One reason is loss aversion: losing something feels worse than gaining the same thing feels good. We also feel committed to our earlier choices, and we do not want to look wrong or wasteful in front of others.

Example: a man stays until the end of a boring film at the cinema, because he paid for the ticket.

At work: Omar chose the warehouse system himself. Stopping it now feels like admitting in front of the directors that he was wrong.

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3. The Warning Signs

The sunk cost fallacy often hides behind reasonable words. A clear sign is when the main reason to continue is what has already been spent. Another sign is hearing phrases such as "we have come too far to stop" or "we cannot throw away all that work". Plans keep changing, deadlines keep moving and the budget keeps growing, but the promised benefit stays far away. People also avoid honest reviews, or they look only at the data that supports continuing.

Example: a student stays in a course they no longer like, only because they have already finished two years.

At work: in every meeting, Omar's team talks about the eight months already spent, and almost never about the months still needed. The launch date has already moved three times.

4. How to Avoid It

First, look forward, and judge every option only by its future costs and benefits. Second, ask one simple question: if we started today, knowing what we know now, would we choose this? Third, set review points and clear stop rules before a project starts, such as a budget limit or a date for results. Fourth, when possible, let someone who did not make the first decision review whether to continue. Finally, treat stopping a failing project as a good decision, not as a personal failure.

Example: the man leaves the boring film and uses the rest of his evening for something better.

At work: Omar asks a manager from another department to review the project: if we started today, would we choose this system? The answer is no, so the company moves to a proven system, and new projects start with stop rules.

Conclusion

In summary, the sunk cost fallacy makes us continue because of the past, instead of choosing for the future. Money, time and effort that are already spent cannot be recovered, whatever we decide. Loss aversion, commitment and the fear of looking wrong make the trap feel natural. Looking forward, asking whether we would choose the same path today, and setting stop rules in advance protect us. Sometimes the smartest investment is the one we decide to stop.

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