

Sunk Cost

When we spend money, it is spent and nothing will bring it back. We hope we will get more money tomorrow. Either way (more money tomorrow, or no more money ever again), the money we spent yesterday is gone. If we spent it in hopes of gaining a prize but the prize didn't arrive, should we spend more money today, in hopes of gaining the same prize? This depends on our odds of winning the prize this time, of course. But yesterday's money is still GONE. When should we give up hope of winning the prize, after many more tomorrows and it still doesn't arrive? Our calculation SHOULD NOT include the money that has already been spent. That money is gone. It is a "sunk cost." Even many economists have a hard time being objective about this particular issue. For some reason, we behave as though we think the money already spent should be a factor in whether we spend more money. It is good to remember the old adage, "Do not send good money after bad." We could, after all, spend today's money on something that is more likely to bring us a reward, albeit not the Big One, which may never have been in our cards at all.

