The Lingering Effects of Our Past Experiences: The Sunk-Cost Fallacy and the Inaction-Inertia Effect

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Abstract

The effect of past experiences and actions in shaping current perceptions, emotions, decisions, and goals is widely recognized in the psychological literature. When it comes to economic decisions, however, these influences are sometimes seen as impediments to rational decision-making. In an attempt to explore the enduring consequences of the past, we present, compare, and discuss two familiar behavioral phenomena: The sunk-cost effect, which refers to situations where continued actions are fueled by past investments, and the inaction-inertia effect, in which continued inaction is triggered by the shadows of missed opportunities. Although one process elicits continued action and the other continued inaction, we show that there is a great deal of similarity in the psychological underpinnings of these effects, and argue that respecting sunk costs and avoiding actions that are associated with forgone opportunities are not necessarily unreasonable, or maladaptive behaviors.

[Man]... cannot learn to forget, and cannot stop to hang on the past: however far or fast he runs, that chain runs with him. (Friedrich Nietzsche, 1874, p. 97)1

Many popular books on decision-making encourage readers to base their decisions on a consideration of present circumstances and future consequences, and essentially to ignore the past. Typically, this advice pertains to past investments (of money, effort, or time) that cannot be recouped and therefore, according to normative models of rational decision-making, should not influence present decisions. Readers may find this prescription perplexing especially when juxtaposed against a truism advocated by many practitioners in the behavioral sciences: the belief that ‘nothing predicts future behavior like past behavior’, or that ‘history repeats itself’.

These seemingly contradictory views concerning the importance of the past, and the extent to which it should affect current decisions, give rise to the following questions: Does it make sense to try to put our past experience to rest and ‘let bygones be bygones’? When are we likely to be led astray by our earlier experiences? Are there situations in which our past experiences would, in fact, improve our judgments and decisions?

In this article, we address these questions by examining two psychological phenomena: The sunk-cost effect and inaction inertia. Both effects seem to violate normative models’ prescriptions as they involve the unduly lingering effects of past choices and actions on present decisions. However, as the sunk-cost effect refers to a situation of continued action and further engagement with an endeavor even when such an undertaking may not be optimal, inaction inertia, as the name of the effect implies, refers to continued avoidance of action that may come at the cost of missing attractive opportunities. The sunk-cost effect and the inaction-inertia effect thus appear to be mirror images of each other. A closer examination of the two effects, however, reveals that they share common
characteristics and perhaps could be understood in terms of the same underlying psychological mechanisms.

Sunk Costs

In a paper entitled ‘Toward a positive theory of consumer choice’, Thaler (1980) discussed several patterns of consumer behavior in terms of Prospect Theory (Kahneman & Tversky, 1979). Among these was the sunk-cost effect, which was later described by Arkes and Blumer (1985) as the tendency to continue committing resources to an endeavor once initial investments in money, effort, or time were already made. This tendency endures even when the initial investments had failed to produce the desired effects. Further spending thus appears unwarranted based on a strict expected cost-benefit analysis. The sunk-cost phenomenon is sometimes portrayed as ‘throwing good money after bad’ to illustrate that while the initial investment may have been reasonable at the time, once it turned sour further investments should not be undertaken.

The effect of sunk costs on the decision to continue projects has been demonstrated in many studies. These studies often used scenarios depicting monetary sunk costs in the context of resource utilization problems or progress decisions. Participants in these studies are typically presented with information concerning the magnitude of an initial investment in a specific project that failed expectations and are asked to decide about further allocation of funds to this project (Arkes & Blumer, 1985; Arkes & Hutzel, 2000; Garland & Newport, 1991; Moon, 2001; Tan & Yates, 1995, 2002; Zeelenberg & Van Dijk, 1997). For example, Arkes and Blumer (1985, experiment 3), used a scenario in which participants were asked to imagine themselves as a president of an airline company, and that in this capacity, they have already invested a large sum of money in building an airplane that cannot be detected by radar. Before the project is completed another company introduced a similar product to the market. Participants were asked if they would continue to invest in order to complete the project. The majority of the respondents supported making additional investments toward completion of the project despite the competition. In contrast, the majority of respondents to another version of the scenario, which included no reference to any previous unsalvageable investments, were unlikely to adopt a development program under these market circumstances.

Sunk costs may also affect the utilization or consumption of items associated with unrecoverable costs. Arkes and Blumer (1985) provided a classic example of this type of sunk-cost effect by way of a field experiment in which some patrons of the Ohio University Theater were offered season tickets at the full price of 15 dollars or at prices discounted by either $2 or $7. The price of the ticket is a ‘sunk cost’ because it cannot be recovered regardless of the number of performances one attends. Rationally, attendance of the season’s plays should be motivated by the enjoyment one is likely to get from this activity, independent of the ticket price. Therefore, from a normative point of view, one should not expect any difference in attendance across the three treatments. The experimenters monitored the number of performances attended by ticket holders and found that in the first 6 months of the season, patrons holding discounted tickets, regardless of discount magnitude, attended significantly fewer performances compared to those who paid the full price. The authors interpreted these data to suggest that the greater sunk cost for those who paid the full price motivated more frequent attendance. Arkes and Blumer (1985) suggested that respecting sunk costs is consistent with the accepted norm against wasting resources and represents a misapplication of this ‘do-not-waste’ norm: For those who paid more for the ticket failing to attend the performance represents a greater waste.
The idea that the sunk-cost effect represents a misapplication of a social norm implies that this is a culturally based human phenomenon. Indeed, Arkes and Ayton (1999) argued that there are no clear examples of sunk cost behavior in the animal literature where it was studied under the name ‘the Concorde fallacy’, referring to the ill-fated venture of developing a super-sonic airplane. This observation is consistent with the distinction drawn by Nietzsche (1874) who points out that humans, in contrast to lower animals, need to learn how to let go of the past.\(^2\)

In another well-known field demonstration of consumption-related sunk-cost effects, Staw and Hoang (1995) recorded the order in which NBA first-year players were drafted. A higher draft position tends to be highly correlated with the salary contract offered to a player. Although actual playing time ought to be based ultimately on measurable skills like scoring, toughness, and quickness, and hence – given appropriate controls – draft order should not matter, the authors found that actual playing time, as well as the likelihood that a player was traded to another team, were significantly and substantially predicted by draft position even 5 years after the signing. It seems that the higher the sunk cost associated with the ‘purchase’ of players, the more chances they were given to justify the investment (see also Camerer & Weber, 1999; for a confirmation of this results albeit at roughly half the effect size).\(^3\)

Later research on the sunk-cost effect focused on relevant personality variables such as age (Arkes & Ayton, 1999; Strough, Mehta, McFall, & Schuller, 2008), experience and training (Tan & Yates, 1995, 2002), and state versus action orientation (Van Putten, Zeelenberg, & Van Dijk, 2010). In related fields, sunk costs were often evoked to explain personal, organizational, and politico-economic behavior such as the failure to fire a newly hired manager who has not lived up to expectations, the failure to quit a relationship or position that turns out to have fewer prospects than one had anticipated, and even the continued engagement in warfare though the original goals which triggered involvement are no longer attainable (Bazerman, 2001; Brafman & Brafman, 2008).

Why do people fail to ignore sunk costs? During the past 25 years, various explanations were offered in an attempt to identify the forces driving the sunk-cost effect. As noted earlier, the effects of sunk costs on utilization and consumption were suggested to reflect the misapplication of the norm against waste (Arkes & Ayton, 1999; Arkes & Blumer, 1985). In explaining the effects of sunk costs on progress decisions, researchers turned to prospect theory and specifically the concept of loss aversion (Kahneman & Tversky, 1984; Thaler, 1980; Tversky & Kahneman, 1981; Whyte, 1993). It was suggested that the act of withdrawing from a project which had failed to produce expected results is framed in terms of a sure loss, whereas persistence entails a chance of recovery and perhaps even a possible gain. The prospect of losing even more money by continued investment is less daunting because additional losses are associated with relatively a minor increase in the overall negative value of the experience, as expressed by the concave shape of the loss side of the value function. The higher the sunk cost in proportion to the overall project budget the greater the motivation is to avoid the loss by continued commitment to the project (Garland, 1991).

A different approach to the processes underlying sunk costs emphasized the psychological motive of self-justification (for an extensive review of this literature see Brockner, 1992). According to this perspective, a manager who initiated a project that is now failing may experience dissonance and feel compelled to continue allocating funds to the project in order to justify the initial decision to embark on it. Several studies attempted to test the role of self-justification in sunk costs by manipulating the level of the decision maker’s personal responsibility. For example, Staw (1976) found that when facing a negative-feedback
concerning an investment made 5 years earlier, participants allocated greater budgets to the failing division, when the initial investment was their own choice, compared to a situation in which the initial investment was designated by their predecessors.

The concept of self-justification has its roots in the theory of cognitive dissonance (Festinger, 1957). As such, self-justification represents a defensive mechanism which operates largely outside awareness. However, appearing personally responsible for the initiation of a failing investment also implies possible organizational sanctions, which may trigger a deliberate motive of tactical self-presentation. Several researchers suggested that respecting sunk costs may represent a deliberate strategy designed to obscure failures and faulty past decisions in an attempt to maintain public credibility (Staw, 1981; Staw & Fox, 1977; Staw & Ross, 1978, 1987; see also Brafman & Brafman, 2008). Within organizations and political systems, abandoning an expensive project is highly likely to expose the decision maker to criticism and reputation costs. Indeed, one variable which was found to increase commitment escalation is the extent to which the decision maker’s job is insecure (Fox and Staw (1979). The reputation concerns interpretation of sunk costs is particularly interesting because it implies that to some degree respecting sunk costs may represent a calculated rational choice. Decision makers may also reasonably consider sunk costs due to valid concerns regarding budget and time constraints or for their informational value (McAfee, Mialon, & Mialon, 2010; O’Brien & Folta, 2009).

In view of the above, should MBA students and managers be trained to categorically ignore past investments? Probably not. As McAfee et al. (2010, p. 333) put it: “In a world of uncertainty, future prospects are informed by past decisions. In a world of scarce resources and finite time, future prospects are limited by past decisions. In a world of social interaction, future prospects are determined by the reputation that is determined by past decisions. Therefore, reacting to past decisions and the sunk costs that they have entailed, is often rational”. In view of the above perhaps, what we should teach MBA students is to use the past as a source of valuable information. We can learn from past, use it to enrich our experience, and improve our decision making skills. We can guard against unwarranted escalation of commitment not by trying to ignore the past, but by careful consideration of our-own motives.

Inaction Inertia

The term ‘inaction inertia’ was coined by Tykocinski, Pittman, and Tuttle (1995) to describe the reluctance of individuals who had missed an attractive action opportunity to take a subsequent action opportunity in the same action domain. Inaction inertia occurs when the subsequent opportunity is substantially inferior to the one forgone, even though it still has a positive value. Thus, for example, a customer who walks into a store to discover that the ‘50% off’ sale price on a desired product was just discontinued is less likely to purchase this product now with a 10% discount, although this current deal may still seem attractive to customers who are unaware of the previous 50% off sale.

During the past decade, inaction inertia has been investigated by several researchers, in a variety of studies, employing both scenario and real behavior methodologies (for a review of the earlier studies see Anderson, 2003; Tykocinski & Pittman, 2004). In a typical scenario, study participants are exposed to information about an opportunity which they had already missed and are asked to rate the likelihood that they would act on a similar opportunity that is still available to them. The inaction inertia effect is illustrated by the relative reluctance of individuals to take subsequent action when the difference in attractiveness between the current and the forgone action opportunities is relatively
substantial. For example in Tykocinski et al. (1995, experiment 2), students were asked if they would join a frequent flyer program before a trip they were currently planning to take. Some of the students were told that they had considered signing up for this program once before prior to a previous trip that they took. The number of miles missed by having failed to sign up on a previous opportunity was manipulated to create either a large difference, or a small difference between the forgone and the current action opportunity. The results demonstrated the inaction inertia effect: Participants who had missed the more attractive deal were significantly less likely to take advantage of the current opportunity to sign up for the program compared to those who had missed the less attractive deal or compared to participants in the control condition who had no history of a missed opportunity in this domain.

Inaction inertia was demonstrated also in the domain of actual losses. Investors in a simulated stock market who had missed an opportunity to sell their stock for a modest gain were less likely to sell it later when facing a grave loss, compared to investors who had no previous sell opportunity or compared to investors who were facing a smaller loss (Tykocinski, Israel, & Pittman, 2004).

In his poem ‘Anthem’ (from his album The Future), Leonard Cohen encourages us to ‘Ring the bells that still can ring. Forget your perfect offering’. However, forgetting perfect offerings is not a trivial task. Tykocinski et al. (1995) argued that having missed a favorable opportunity, we acquire a mindset that leads us on the path of inaction inertia. What is the essence of this mindset? A key element seems to be the fact that we tend to think of the missed opportunity as an actual loss rather than a mere non-gain.

Indeed, in an experiment that used the Frequent Flyer Scenario described earlier, Tykocinski et al. (1995, experiment 6) found that exposing participants to an explicit ‘loss focus’ version of the scenario, emphasizing the forgone outcomes, produced the inaction-inertia effect to the same degree as the original no emphasis version. However, a ‘future gain’ frame, emphasizing the miles that could still be obtained, eliminated the effect. It seems then that in our minds foregoing an action opportunity does not translate into ‘maintaining the status quo’ or a perceived absence of positive outcomes, rather it is experienced as a negative outcome, a loss, an actualized sunk cost, for which we are responsible through our failure to act sooner. This psychological mindset thus opens the door to self-recrimination and regret.

The idea that regret plays a major role in inaction inertia is featured in several accounts of the effect (Arkes, Kung, & Hutzel, 2002; Butler & Highhouse, 2000; Kumar, 2004; Pittman, Tykocinski, Sandman-Keinan, & Matthews, 2008; Sevdalis, Harvey, & Yip, 2006; Tykocinski & Pittman, 1998, 2004; Tykocinski et al., 1995, 2004). These explanations, however, differ somewhat in the specific type of regret they implicate. Several researchers emphasized the role of ‘experienced regret’ which is elicited by the realization that an attractive action opportunity was lost. Rejecting the current action opportunity may enable the perceiver to stop dwelling on the missed opportunity and move on. Other accounts focus on the role of ‘anticipated regret’ and argue that the juxtaposition of the current action opportunity with its inferior outcomes and the forgone superior opportunity triggers a counterfactual thought process focusing on the benefits that could have been obtained if only one had acted sooner. By rejecting the current action opportunity, one is able to put an end to an unpleasant thought process that, if continued, is likely to lead to regret. According to this account, continued avoidance of action in inaction inertia is a defense tactic which enables the perceiver to avoid regret. Some support for the avoidance of anticipated regret explanation was obtained in experiments that manipulated the extent to which reminders of the missed opportunity could be avoided.
For example, students who missed an opportunity to rent a beautiful apartment near the university were less likely to rent an apartment that was located further away. This effect was attenuated, however, if the students were told that each day when they walk over to school, they pass by the large sunny veranda of the apartment that they missed (Tykocinski & Pittman, 1998, experiment 2).

Other accounts of the inaction-inertia effect focused on the information-value of the forgone opportunity. In this line of thought, the initial action opportunity serves as an anchor against which the current option is contrasted. This comparison processes may trigger devaluation of the current action opportunity (Arkes et al., 2002; Zeelenberg, Nijstad, Van Putten, & Van Dijk, 2006). The fact that a desired item was offered for a much cheaper price may signal to potential buyers that the product is not worth its asking price. A related information-value argument in the domain of product consumption is that the sale history of the product may suggest to consumers that if they postpone purchase long enough a substantial sale price will be offered again at some point in the future (Anderson, 2003). Of course this logic is not applicable to some of the situations in which inaction inertia was demonstrated, for example, the accumulation of frequent-flier miles. Although several researchers attempted to identify a dominant cause for inaction inertia, the results of these studies are usually mixed. At this stage, we cannot discount any of the causes that were suggested, and we should keep in mind that several causes could very well combine to produce the effect.

In recent years, inaction inertia was used to explore and account for various characteristics of consumer behavior such as brand switching and reactions to the termination of promotions (Zeelenberg & Van Putten, 2005). As recently demonstrated by Tsiros (2009) and Tsiros and Hardesty (2010), inaction inertia has important implications for marketing and pricing strategies across a number of domains. Inaction inertia was also employed to explain how bonuses may backfire and encourage academic procrastination (Pittman et al., 2008).

Sunk Costs and Inaction Inertia – Similarities and Differences

Although one process breeds continued action and the other breeds continued inaction, the underlying mechanisms that were offered as explanations for the sunk-cost effect and inaction inertia are often strikingly similar. A number of conceptual accounts of the sunk-cost effect refer to Prospect Theory, the concept of loss and the experience of regret. In general, these ideas conceptualize past investments as potential losses, losses that will be actualized once the decision to withdraw from the endeavor is taken. Actualizing these losses renders the decision maker vulnerable to a loss of reputation, self-criticism, a loss of self-esteem and regret. Several accounts of inaction inertia suggest a very similar process. The initial forgone opportunity is perceived as a loss. Taking a less attractive action opportunity would actualize this loss and expose the decision maker to self-recrimination and regret. Sunk costs and forgone opportunities are both, in a sense, psychological vulnerabilities. The action of terminating engagement in an endeavor (in the case of sunk costs) and the action of taking an inferior action opportunity (in the case of inaction inertia) are both associated with psychological costs. These actions are likely to trigger regret and recrimination, the anticipation of which encourages continued action in one case and avoidance of action in the other. To the extent that lower animals are free of sentiments such as regret and recrimination, the lack of sunk-cost effects documented by Arkes and Ayton (1999) is consistent with such explanations, as would be a finding of the lack of inaction inertia for non-human animals. To the best of our knowledge, however, no literature exists on the topic of decision avoidance in non-humans.
A different type of explanation for the sunk cost effect focused on the processes of information gathering and information utilization. McAfee et al. (2010) suggested that sunk costs are informative and should be taken into account when one is trying to assess the time and expenditure required to complete a project. Moreover by examining sunk costs we may learn something regarding market volatility and options value. Again, similar ideas were put forth in relation to the inaction-inertia effect. Several researchers pointed out that the forgone opportunity provides a benchmark which allows the decision maker to assess the ‘fair’ or correct value of a product, as well as the fact that it is still possible to encounter a better deal in the future (Arkes et al., 2002; Zeelenberg et al., 2006). Recognizing the informational value of the past, whether it is past investments that we have made, or past opportunities that we have missed, makes it clear that for reasonable economic concerns, the past should not be ignored.

Both the sunk-cost effect and the inaction-inertia effect hinge on the connections and associations between past and present. When these connections are severed, due to circumstances or personal inclinations, people’s thoughts, decisions, and actions are less likely to be influenced by the past. Recently, Van Putten and her colleagues (Van Putten, Zeelenberg, & Van Dijk, 2009; Van Putten et al., 2010) conducted a series of experiments that demonstrated the role of state versus action orientation in people’s ability to decouple the past from the present. People who are action oriented find it easier to let go of past events and indeed are less susceptible to the sunk cost effect compared to people who are state oriented who tend to ruminate on the past (Van Putten et al., 2010). Similarly, participants who were induced with an action orientation by instructing them to think about ways to improve the situation were less likely to show inaction inertia than participants who were induced with a state orientation by asking them to list their thoughts and feelings associated with a missed opportunity (Van Putten et al., 2009).

Despite the similarities in the mechanisms and dynamics of sunk costs and inaction inertia, we must not overlook the implications of the main difference between these two effects, namely the focus on action versus inaction. Research in psychology identified several important differences between the consequences of actions and inactions, commissions and omissions. According to the ‘feature-positive effect’, people experience greater difficulties in processing information about occurrences than non-occurrences (Allison & Messic, 1988; Fazio, Sherman, & Herr, 1982; Newman, Wolf, & Hearst, 1980). Actions are concrete; hence, they are generally easier to observe and remember, and are often more public than inactions. Thus, for example, the decision to discontinue a failed investment may make the decision maker open to outside criticism and a loss of public reputation, while the recognition of missed opportunities often remains private, and although it may result in self-recrimination, it is less likely to be accompanied by public reputation loss. Having missed an attractive action opportunity, one may be ‘kicking oneself’ but is less likely to be kicked by others. In addition, research on omissions and commissions reveals that agents are perceived as more personally responsible and more blameworthy for negative outcomes if these outcomes were produced through action rather than inaction (Spranca, Minsk, & Baron, 1991). Consistently, personal responsibility for an initial failed investment was found to play an important role in respecting sunk costs by triggering self-justification motives, in the decisions of individuals as well as groups (Arkes & Blumer, 1985; Bazerman, Beekun, & Schoorman, 1982; Staw, 1981). In contrast, personal responsibility and consequently self-justification does not seem to play such a crucial role in inaction inertia and the effect is still obtained even when people do not feel personally responsible for having failed to act sooner (Tykocinski et al., 1995).
Another relevant implication of the action versus inaction dichotomy was discussed in the literature in the context of regret. Some research suggests that at least in the short run, the consequences of actions elicit stronger emotions and greater regret than the consequences of inaction (Gilovich & Medvec, 1994; Gilovich, Medvec, & Chen, 1995; Kahneman & Miller, 1986; Kahneman & Tversky, 1982). If both effects are indeed fueled by regret, actors may find it easier overall to break away from inaction inertia than from sunk costs.

**Economic Rationality and the Effects of Past Experiences**

The sunk-cost effect is often referred to as the sunk-cost fallacy, or somewhat more mildly, the sunk-cost bias. The use of the terms ‘fallacy’ or ‘bias’ suggests that respecting sunk costs is deemed irrational in the sense that it is inconsistent with the prescription of normative economic models of decision making. Similarly, although the inaction-inertia effect was never termed inertia fallacy or bias, rejecting deals that others, who do not share one’s history of missed opportunities, find attractive, is unlikely to be consistent with normative economic models.

Of decisions and behaviors that are considered inconsistent with normative models, several, likewise, reflect situations in which past perceptions influence current assessments and actions. For example, in the well-known ‘gambler’s fallacy’ (Tversky & Kahneman, 1971), people’s choices and evaluations are biased by the expectation that a random process such as a coin toss will correct itself. As a result, even after observing a small sample of tosses in which they observed that the coin showed ‘tails’ several times in a row, people expect ‘heads’ to come up in the next toss. This irrational expectation probably stems from an incomplete understanding of random events and chance (Ayton & Fischer, 2004). Another well known phenomenon, in which past observations shape judgments and decisions that may be considered ‘irrational’, is the ‘hot-hand’ phenomenon, which has gained prominence in sports (Bar–Eli, Avugos, & Raab, 2006; Gilovich, Vallone, & Tversky, 1985): Based on a relatively short sequence of successful events, observers judge a player to be in a special state of ‘grace’ and expect continued success beyond that to be reasonably expected based on the player’s average skill level. There is an ongoing debate whether we should consider the ‘hot-hand’ belief irrational at least to the extent that it relates to inferring an actor’s skill. For example, Burns (2004) argued that in basketball, the hot-hand belief is in fact adaptive. Players with better underlying ability are more likely to show strikes. If the team members are using the ‘hot hand’ as an allocation cue in deciding to whom they should pass the ball, relying on the hot hand will result in more passes to players who are, in fact, more likely to score points for the team. Thus in some situations, the hot-hand belief may serve as a helpful approximation of base rate successes.

It is hard to see how an adaptive behavior that helps people to achieve their goals could be termed irrational. Indeed on closer examination, some ‘fallacies’ may transform into adaptive or reasonable practices. To an extent this seems to be the case also for sunk costs and inaction inertia. When researchers take into account a wider scope of both psychological and economic variables and costs, both behaviors appear to have rational motivators. If people’s choices are limited by past expenditures and shrinking budgets, or if they believe that a certain course of action would damage their reputation, jeopardize their future employment prospects, induce self-recrimination, or breed regret, avoiding this course of action makes perfect sense.
Conclusion

Unless we were cloned into existence as fully grown adults, we live our lives on the ever-growing endowments of our pasts. These pasts shape our psychological make-up and affect our present circumstances in several ways. First, we carry with us a hoard of ‘unfinished business’: endeavors we initiated at some point in the past that continue into the present. During the time that passed, our goals and circumstances may have changed, and we may find ourselves encumbered with activities, commitments, relationships, investments, obligations, hobbies and pursuits that are no longer optimal. Second, our experience endows us over time with a large number of reference points against which we can juxtapose our current options, aspirations, experiences, and achievements. These comparisons may trigger assimilation and contrast effects, counterfactual thoughts, disappointments, elation or regret. Finally, the consequences of our past choices and actions are powerful determinants of our current resources. These circumstances entail not only economic conditions such as available budget, position or reputation, but also social and psychological ones. Past failures may breed a sense of insecurity, lower self-esteem, and vulnerability to regret. Past successes are likely to inspire a sense of competence, aptitude and self-efficacy.

Inherently our pasts are neither good nor bad. The question to what extent we should allow the past to affect our current decisions cannot be answered without specific reference to its psychological implications and informational value. Sunk costs and past opportunities may be informative and useful in guiding us towards better current decisions in some situations and obscure better options and more optimal choices in others. To enjoy the advantages of learning from the past and avoid the pitfalls of automatically assuming positions that reflect the shadows of the past rather than the opportunities ahead, decision makers should be trained to carefully consider their own motives.

Finally, regardless of whether one believes that the past should or should not be ignored, the mere suggestion begs the question – is it at all possible to ‘let bygones be bygones’ at will? As demonstrated in a series of experiments on thought inhibition by Wegner (1989), people who are instructed not to think of a white bear find it very difficult to suppress this thought. We suspect that it is probably far easier for decision makers to not think of white bears than it is to not think about their failed investments and missed opportunities.

Short Biographies

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Endnotes

1 Our translation. In the Original, it reads ‘Er wunderte sich aber auch über sich selbst, das Vergessen nicht lernen zu können und immerfort am Vergangenen zu hängen: mag er noch so weit, noch so schnell laufen, die Kette läuft mit’ (Nietzsche, 1874).

2 Recently, Navarro and Fantino (2005) conducted a series of experiments examining the effect of different reinforcement schedules on pigeons’ choosing behavior. The authors concluded that like humans, pigeons may behave in ways that are similar to the sunk-cost effect given a specific set of environmental conditions. These findings pose intriguing questions concerning rationality being a constructivist or ecological concept (e.g., Smith, 2008).

3 There is some controversy, however, surrounding these findings. Some find it hard to accept that in such a high-stakes environment valid performance criteria would be neglected (e.g., Friedman, Pommerenke, Lukose, Millam, & Huberman, 2007).

4 Ortmann and Qian (forthcoming) embed one of the hypothetical Tsiros and Hardesty (2010) lab studies in an incentivized induced-value context typically used by economists.

5 For an interesting discussion of rationality and its definitions see Over (2004).

References


