

*An Example:*

You see an advertisement for shirts on special twenty kilometres away, at prices substantially less than at your local shirt shop.

Since you “need” new shirts, and the prices advertised are substantially lower, you drive over.

But when you get there, you find that none of the shirts on special are in your size. The shop stocks your sized shirts, but at prices only slightly less than your local shop.

*What should you do?*

- a. Should you refuse to buy any shirts because they are not cheap enough to justify the expense of the twenty-km drive?
- b. Should you buy some shirts anyway?
- c. Should you buy large numbers of shirts so that the total savings offset the cost of driving over?
- d. What if your sized shirts are more expensive than your local shop's? Should you buy them anyway, since you might as well get something for your trip?

*Answer:*

- a. No. Ignores sunk costs already incurred and unrecoverable.
- b. Yes. You should buy some shirts anyway—you've already incurred the cost of driving over (and back): it's sunk.
- c. Depends if you like them and if you think they won't go out of style or size.
- d. No. Throwing good money after bad.