Sunk costs

A **Sunk Cost** is a cost that is incurred and can not be meaningfully recovered by any practical means.[1] For example, a business may have invested a million dollars in new hardware. This money is now gone and cannot be recovered, so it shouldn't figure into the business's decision-making process.[2] These costs are excluded from future business decisions, because costs will be the same regardless of the outcome of a decision.[3] This may be termed *sunk cost trap* – when an organization irrationally follows through on an activity that is not meeting expectations due to time and money already spent on it, rather than cutting their losses and making a decision that will give them better outcomes going forward.

When making an informed decision, organizations should consider the costs that are a result of the decision (relevant costs); sunk costs that do not change should not be considered.[3]

Next: Endowment effect

[1] https://www.accountingtools.com/articles/what-is-a-sunk-cost.html.
[2] http://www.lifehack.org/articles/communication/how-the-sunk-cost-fallacy-makes-you-act-stupid.html.
[3] http://www.investopedia.com/terms/s/sunkcost.asp.