Semester Course

1.4 Endowment Effect and Sunk Costs

## *Student Activity Packet*

## UNIT: BEHAVIORAL ECONOMICS

###

Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Period \_\_\_\_\_\_\_\_\_\_\_\_\_

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| --- |
| **Students will be able to:*** Identify how the endowment effect and sunk costs can affect our decision making
* Discuss how the endowment effect and sunk costs are connected to our personal finances
* Practice making decisions that are influenced by sunk costs
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| --- | --- |
| **""** | INTRO |

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## **PROMPT:**

Use the space below to answer the prompt.

1. **Think of something you own that you really like. Then, think of how much money someone would have to offer to buy it from you. Do you think that number is higher or lower than most people would pay for that item? Explain.**

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| **""** | LEARN IT (1) |

##

## **EDPUZZLE:** [**Why Are We So Attached to Our Things?**](https://edpuzzle.com/media/60ef71702fabad412c0ad0e6)We value the things that we own. Otherwise, why would we still have them? But is it possible that sometimes we value them a little too much? Watch this video and follow your teacher's directions to answer the questions either in your student activity packet or within the EdPuzzle itself.

##

## *NOTE: EdPuzzle videos shuffle answer choices and do not always match the order provided here.*

1. **Which of the following describes the endowment effect?**
	1. Placing more value on information we’ve received recently over information received long ago
	2. The tendency to look for information that confirms beliefs we already have
	3. Valuing things we own more highly just because we own them
	4. Considering inputs of time, money, and effort we can’t get back when making decisions
2. **Which item did most participants in the study want to keep?**
	1. The item they received first
	2. The healthiest item
	3. The item that cost the most
	4. The most visually appealing item
3. **We tend to value items once owned by celebrities similar to those handed down to us from family members because we believe they connect us to the original owners.**
	1. True
	2. False
4. **Even as technology advances products like books and music into the digital world, it’s possible physical copies will still remain popular because of…**
	1. Supply and demand
	2. The endowment effect
	3. Cost of production
	4. Recency bias

## **GRAPHIC:** [**The Endowment Effect**](https://drive.google.com/file/d/10XW23iuXHXKeVKykYefj0mhNViyjiN1G/view)

As we saw in the video, the endowment effect can cloud our judgment and cause us to make irrational decisions. Review this graphic and then answer the questions to think about how this bias can show up in our lives.

1. **How does the graphic demonstrate what the endowment effect is?**
2. **Think back to the question you answered in the Intro. Now, brainstorm how the endowment effect might positively or negatively effect buyers or sellers, depending on the situation:**

|  |  |  |
| --- | --- | --- |
| **Role** | **Positive Impact** | **Negative Impact** |
| **Seller** |  |  |
| **Buyer** |  |  |

1. **What is one question you can ask yourself if you find you are making an irrational decision because of the endowment effect?**

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| --- | --- |
| **""** | DO IT (2) |

## **ACTIVITY:** [**PLAY: Dollar Auction Game**](https://docs.google.com/document/d/1_joQ6M-xHpUtrNAFwzGoWULNcklW9N5JIr53Jv-pnlI/edit)We’ve learned about how having ownership of something can affect our decision making. Now let’s take a look at another cognitive bias that creeps into our daily lives. Follow your teacher’s directions to complete the activity.

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| --- | --- |
| **""** | LEARN IT (3) |

## **VIDEO:** [**The Sunk Cost Fallacy: What Is It and Why Does It Happen?**](https://www.youtube.com/embed/AFPgxIJHxsE)The previous activity is an example that shows sometimes it’s hard for us to quit, especially when we’ve put a lot of time, money, or effort into something. Watch the video to learn more about sunk costs and how they affect our decision making. Then, answer the questions.

##

1. **Briefly explain, what are sunk costs?**

1. **According to the video, what are two reasons that cause us to fall victim to sunk costs?**

1. **What does the video tell us is important to do with sunk costs?**
2. **Describe a time when you continued to do something, not necessarily because it was the best thing for you to do, but because of how much time, money, or effort you’d already invested.**

## **INTERACTIVE:** [**How Susceptible Are You to Sunk Costs?**](https://esmt.az1.qualtrics.com/jfe/form/SV_3dQHR5heIEH6sBw) **(4)**There are lots of ways that sunk costs can make their way into our decision making. Let’s take a look at how you would respond to some of them. You might already answer these questions differently because of what you’ve learned, but take this survey to find out how susceptible you are to some scenarios involving sunk costs. Then, answer the questions.

##

1. **What was your score and how did it compare to the average respondent?**
2. **Do you find it difficult to ignore sunk costs when making decisions? Why or why not?**
3. **Choose one of the following scenarios and describe a situation in which someone would need to make a decision involving sunk costs:**
	1. Planning a birthday party
	2. Purchasing a vehicle
	3. Eating an expensive meal at a restaurant

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| --- |
| Scenario I chose:  |
| Description:  |