Basic Consumer Case 1

A Blogger Who Understands the Importance of Ignoring Sunk Costs

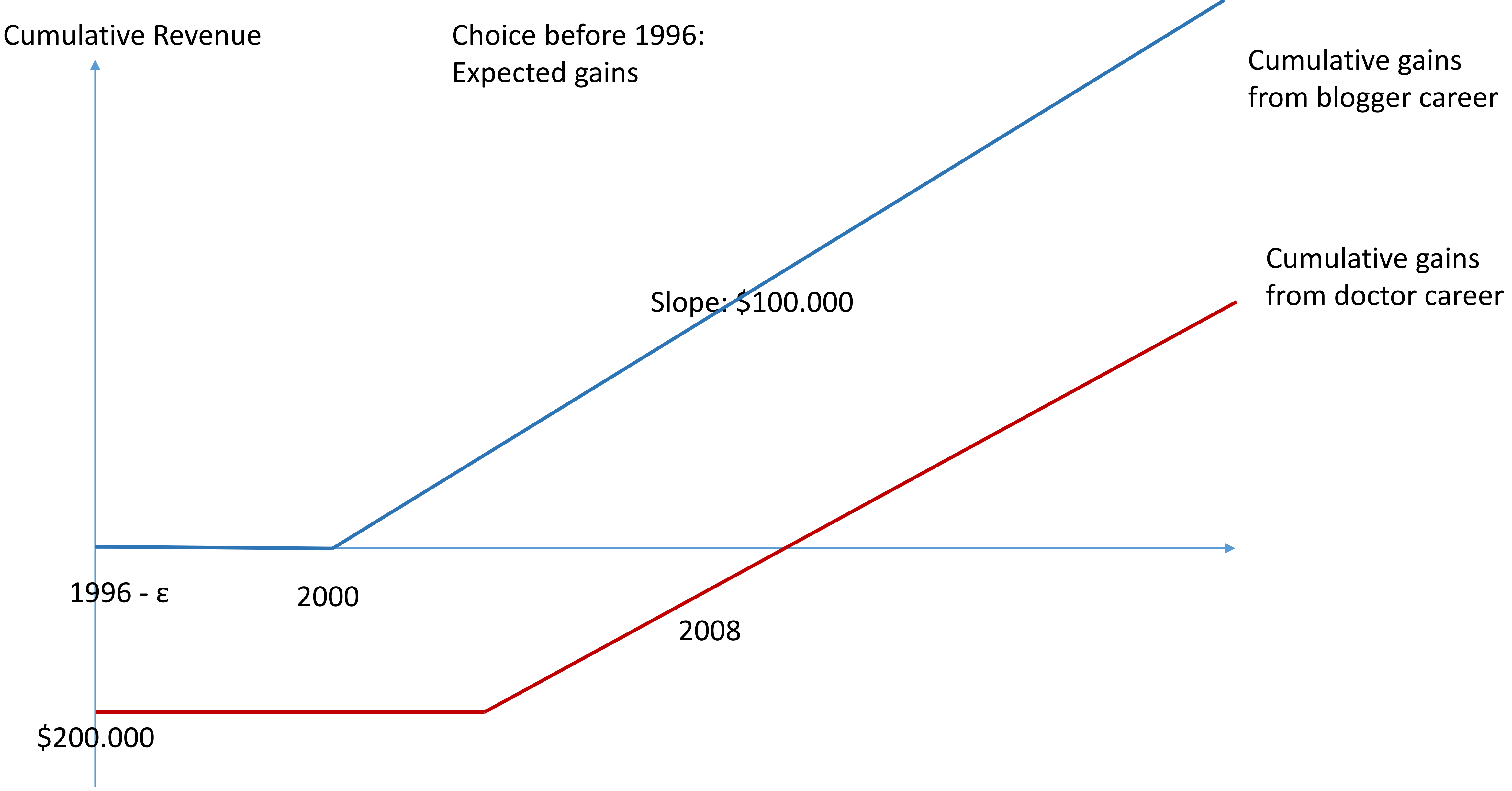
Survey

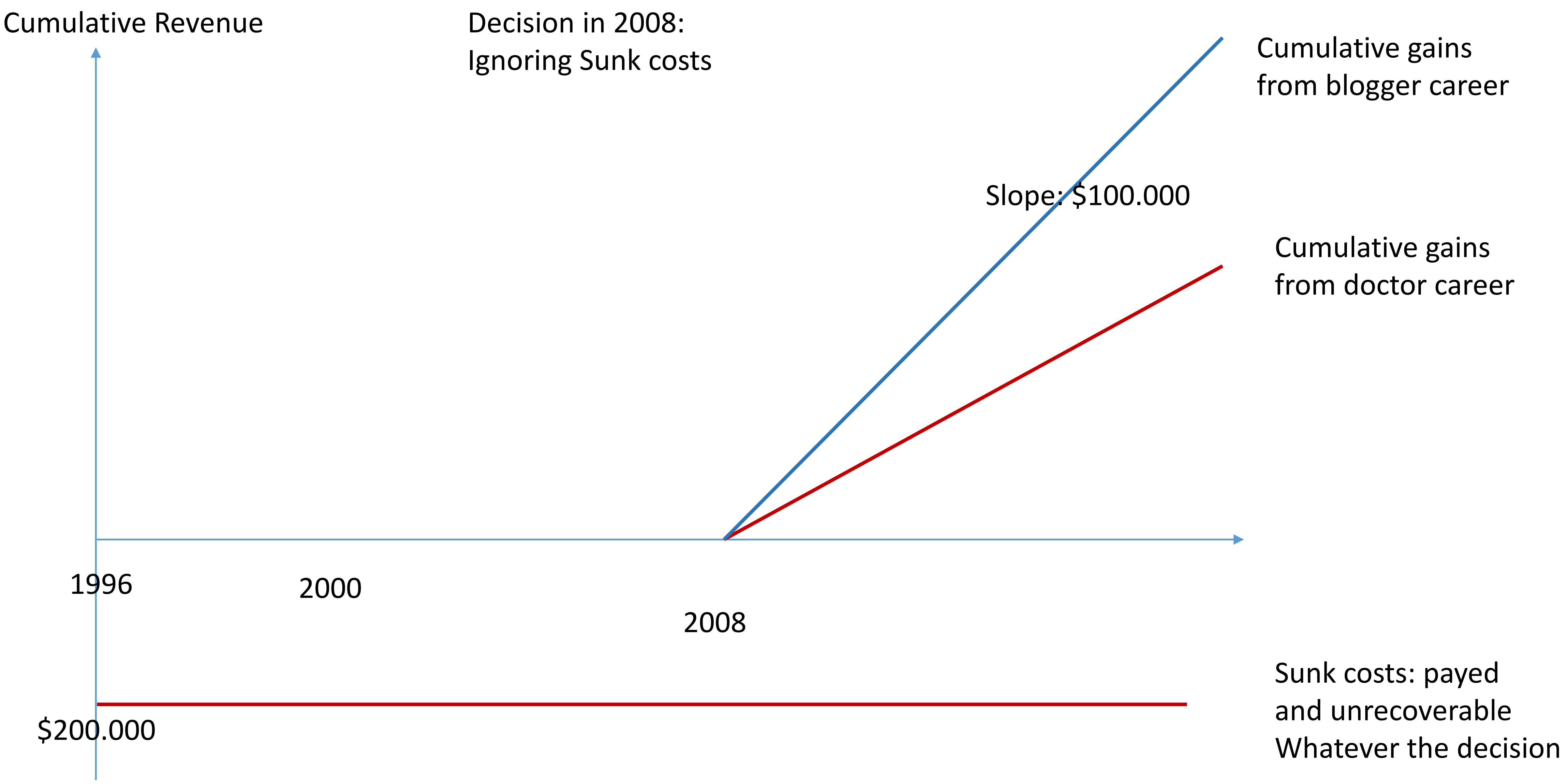
- 1996: Arnold Kim began medical school
- 2000: He began blogging about Apple
- 2004: He became doctor
- 2008: His earning from blog > $100,000 per year from paid advertising
- He had to choose blogger or doctor carreer
- BUT: invested nearly $200,000 in his education
- He can make more form from his blog than his medical career
- Working at home, he could spend more time with his young daughter

Definitions

- Sunk Costs:
  - costs that can not be recovered

- Opportunity costs:
  - The opportunity cost of a chosen option is defined as the cost (or value) of the second best option


Cumulative Revenue
Choice before 1996:
Expected gains
Cumulative gains
from blogger career
Cumulative gains
from doctor career
Slope: $100.000
1996 - ε
2000
2008
$200.000



Cumulative Revenue
Decision in 2008:
Ignoring Sunk costs
Cumulative gains
from blogger career
Slope: $100.000
Cumulative gains
from doctor career
1996
2000
2008
Sunk costs: payed
and unrecoverable
Whatever the decision
$200.000

The marginal analysis