

A Theory of Ex Post Rationalization

Shengwu Li, Mohammad Akbarpour, Scott Kominers, Paul Milgrom

Abstract :

Human beings attempt to rationalize their past choices, even those that were mistakes in hindsight. We propose a formal theory of this behavior. The theory predicts that agents commit the sunk-cost fallacy. Its model primitives are identified by choice behavior and it yields tractable comparative statics.