

PEER EFFECTS IN ART PRICES: Evidence from the abstract art movement

Consumers are willing to pay more for a particular artist's work, once this artist is connected to a more 'valuable' set of peers. That is the central finding of research by **Maria Marchenko**, to be presented at the annual congress of the European Economic Association in Manchester in August 2019. Her study examines data on the network of artists in the abstract art movement.

Art objects are receiving increased attention in recent decades as possible investments. According to the Knight Frank Luxury Investment Index 2014, the 10-year capital appreciation of art is 226%.

But estimation of the real returns in existing economic research provides lower values and varies, depending on the methodology, period and dataset, from 3.8 to 15%. Moreover, some of the results show the underperformance of art in comparison to the other types of investments with the high volatility of the prices on the art market.

The attractiveness of the art market, therefore, cannot be explained by the investment purposes only. Buying pieces of art is a popular tendency among high earners. Owning the work by a famous artist help to strengthen status in the society and own collection can yield additional respect. A better understanding of the underlying trends in the art market and the determinants of the art prices are thus becoming crucial for effective collecting and investment.

This study explores social connections between artists as a potentially important determinant of the art price formation. The author believes that such connections can influence the performance of the art object on the market in two ways.

First, connections and co-working with others influence the development of artists and the quality of their works. As a result, being connected to a better or more talented artist may improve both the quality of the works and their price. But also the prices of the works themselves are potentially driven by the prices of the works of connected artists. If the artists worked together or were connected by the same movement, it is likely that their works will resemble some similarities from collectors' point of view and may experience similar demand on the market.

The study explores the influence of artists' connections on art prices using the example of the abstract movement artists and their works. Abstract art is among the movements, for which the price formation is not always straightforward, and hence, exploring the artists' network as a channel of price formation may be more informative than in classical art.

The data were collected specially for this project from the open resources: panel data of the prices of abstract artists' work sold at Sotheby's in 2000-2015 together with details on each lot and artists' biographical information.

By carefully examining the data, the study finds the expected positive peer effect in art prices: consumers are willing to pay more for a particular artist's work, once this artist is connected to a more 'valuable' set of peers. The magnitude of such increase is not huge: an average \$3,000 increase for a \$10,000 increase in the average price of peers' works.

At the same time, the study reveals the opposite effect of the connections on the price expected by the auctioneers. The higher the average price of the peers is, the lower the lower bound of the pre-auction catalogue price of the piece is.

On the one hand, the results of the two settings can disagree due to the differences in the sample. About 17% of all auctioned lots were not sold and, therefore, not relevant for the discussion of the consumers' willingness to pay for the art. On the other hand, this contrast is also signalling the particular behaviour of the auctioneers towards the connected artists: suggesting the lower price they provide an alternative for the market, thus increasing its attractiveness and demand, resulting in the higher actual price.

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