

ART MARKET

DAMS (L-3)

University of Teramo

Cecilia Paolini

University of Teramo



UNIVERSITÀ
DEGLI STUDI
DI TERAMO

Department of Communication Sciences



DIPARTIMENTO DI
SCIENZE DELLA
COMUNICAZIONE

*XXX LESSON – ARTISTIC AND
ECONOMIC EVALUATION IN THE
EXCHANGE*

ARTISTIC AND ECONOMIC EVALUATION IN THE EXCHANGE

The price of an artistic asset, unlike an industrial asset, does not depend only on the cost of production but, above all, on the cost of production **perceived artistic quality**.

There is no convergence of judgment on artistic merit; In addition, the link between artistic merit and price is blurred: not all characteristics of the art asset are measurable and observable or susceptible to monetary valuation.

The market is supported by the **subjectivity of evaluations** and the

Individual income differences: Different agents associate the same artistic merit but very different prices with an asset.



ARTISTIC AND ECONOMIC EVALUATION IN THE EXCHANGE

Buyers and bidders are often misinformed about the artistic quality of the property, and the principle of “nobody knows” (*Symmetrical disinformation*), while in other cases a party has an information disadvantage compared to the bidder (*asymmetric information*).

Han van Meegeren (10 October 1889 - 30 December 1947), Christ and the Adulteress, Attributed to Johannes Vermeer



DETERMINATION OF THE VALUE OF AN ARTISTIC ASSET

ARTISTIC AND ECONOMIC EVALUATION IN THE EXCHANGE

Gatekeepers are agents who exercise a leading role in the evaluation of the artistic and, often, monetary merit of a work.

- If the action of the gatekeepers is effective, the exchange price is a significant signal of artistic value (objective judgment for goods *experience* and “*impressioni*” for credence goods).
- If the gatekeeper fails to reduce the uncertainty about the artistic merit of the art asset, the market no longer judges it credible and its function is lost.

➤ **Artistic consumption has an important social component: the artistic merit of the good does not reflect only the individual's evaluation, but depends on the value that others attribute to it (Keynesian beauty contest).**

ARTISTIC AND ECONOMIC EVALUATION IN THE EXCHANGE

- **PROFESSIONALS:** This group includes critics (visual art, music, literature, gastronomy, etc.) who evaluate an artistic good or service and publicly formulate their judgment.
- **AMATEURS:** this group can be identified as the "general public"; It is the market itself, in this case, that acts as a gatekeeper, determining the artistic value of a work.
- In some situations, gatekeepers have the power to skim the bid (example: jury of the Venice Biennale).
 - In other cases, the overall evaluation of artistic merit cannot be separated from the judgment of the public (success of a film or a song).



ARTISTIC AND ECONOMIC EVALUATION IN THE EXCHANGE

Reducing artistic and monetary uncertainty can reflect
also individual learning mechanisms:

- Sometimes a consumer anticipates the artistic merit of a certain good on the basis of a similar consumption made in the past (the new book of an already known writer, etc.).

When artistic consumption continues over time, the value
current artistic of the asset reflects the one expected in the future: the
art market is characterized by “*forward
looking*”.



Even for art goods we can speak of a life cycle. We can identify two phases of the life cycle of the art asset, depending on whether or not it manages to acquire and maintain the status of a work of art:

- in the first phase, the number of exchanges is increasing: initially the asset has not yet acquired the status of a work of art and the symbol of which the asset is a potential bearer must be identified and transmitted to the outside world through the exchange;
- in the second phase, the object reaches the highest artistic merit: in the case of a painting, it is allocated to those who have the highest reserve price; in the case of a film (or a book or an opera) the maximum number of consumers is reached.

Il The consumption of the artistic asset reaches a certain level of equilibrium and stabilizes:

- if the artistic merit is sufficiently high, the stock of artistic capital incorporated in the asset itself is not reduced, even as a result of the reduction in consumption (long-seller));
- if, on the other hand, the history of exchanges has not allowed the accumulation of adequate artistic merit, the work of art loses "liquidity" and the good loses its symbolic value by leaving the art market itself, but if on a durable medium (book, CD) its consumption remains possible.

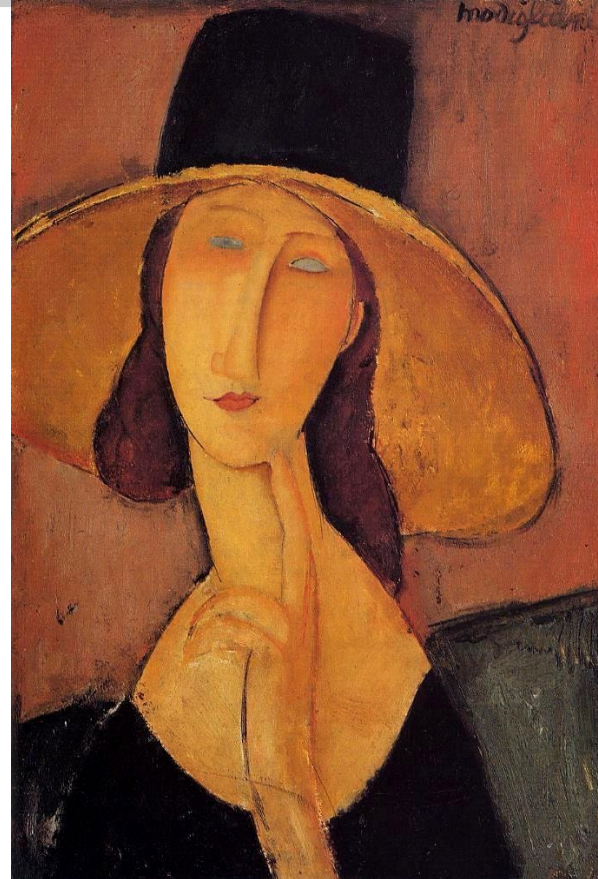


ARTISTIC AND ECONOMIC EVALUATION IN THE EXCHANGE

For art assets, the life cycle does not necessarily reflect an efficient Darwin-style selection process: even a work of high artistic merit can in fact be forgotten and fall into public consideration.

Moreover, art history does not even exclude that a process of reselection is possible, that is, that an artist who has been forgotten can return to be re-evaluated.

Amedeo Modigliani,
Portrait of Jeanne
Hébuterne, 1918,
private collection



Vincent Van Gogh, Notte stellata, 1889,
New York, MoMA

ARTISTIC AND ECONOMIC EVALUATION IN THE EXCHANGE

The first economists to deal with economics and culture are the "usual suspects": Smith, Ricardo, Keynes, even before the Sixties, but the turning point is represented by William J. Baumol e William G. Bowen ("Performing Arts, The Economic Dilemma", 1966) who are the first to highlight the financial difficulties in which cultural institutions are struggling.

They developed the theory of "**Law of Unbalanced Growth**", often referred to as "Baumol's disease", according to which production activity is divided into two sectors, one **stagnant**, the other **progressive**.



ARTISTIC AND ECONOMIC EVALUATION IN THE EXCHANGE

The difference is given by the different opportunity that each of the two sectors has to incorporate technological progress into its production function.

Artistic and cultural institutions fall into the stagnant sector, as the substitutability of the labor factor with capital is low, therefore, the introduction of technology in their production processes.



ARTISTIC AND ECONOMIC EVALUATION IN THE EXCHANGE

In the progressive sector, which usually produces standardized goods, technological innovations are easily incorporated, this allows for economies of scale, production costs that affect the production function less and less and higher wage levels for employees. But wages in the two sectors evolve in parallel, for reasons that are not strictly economic and therefore even in the stagnant sector there will be increases in the redistributive level, which will not correspond to increases in productivity due to the low incorporation of technology in this sector.

The consequence is that the costs per unit of product in the stagnant sector will be progressively increasing unlike the progressive sector in which they will be constant, so that the producer of cultural and artistic services will be forced to charge higher and higher prices in order not to incur losses.

This will lead to a contraction in demand, production, and then end up in a withering of the sector, if an external financier does not intervene to support its financial needs with contributions, the amount of which will have to be increasingly high, eliminating the growing gap between costs and revenues.

THE THIRD SECTOR

The model of "non-profit entities", which represents the "third sector" (in addition to the public and private sectors), is developed as a response to the failures of the State and the market, given the lack of public supply and companies operating in this sector, with the aim of covering unsatisfied demand. The constraint for non-profits of the non-distribution of profits determines a behavior that does not maximize the profits themselves, and has as a consequence an end of prevalent social and cultural utility. This means that non-profits offer greater guarantees to the community because they have fewer incentives to exploit consumer ignorance, a characteristic aspect of the' **Information asymmetry** which occurs when the information is not distributed in a homogeneous way, as in the case of a producer who holds the product information and the consumer is instead forced to search for it through external sources.

THE TECHNOLOGICAL IMPACT.

Technology applied to Cultural Heritage, developed especially since the last quarter of the last century, has significantly reduced the bankruptcy impact of the traditional art market economy. Digital Humanities, digital media, Augmented Reality and Virtual Reality, Artificial Intelligence, but also new technologies of artistic diagnostics, are sectors that have advanced the art market by creating new professions and job opportunities.

Even in the traditional exchange of works of art, a significant market incentive has been offered by NFTs and the help of Block Chain technology.



NFTs (Non-Fungible Tokens) are a blockchain-based technology that allows you to create and sell digital artworks in a unique and traceable way. Unlike cryptocurrencies like Bitcoin, which are fungible and interchangeable with each other, each NFT is unique and cannot be replaced with another identical one.

NFTs have revolutionized the way digital art is created, sold, and collected, allowing artists to monetize their work directly and collectors to invest in a new type of digital asset. They also opened up new creative possibilities, with works that can include interactive or dynamic elements that are impossible in the physical world.



Key Features of NFTs in Art:

Uniqueness and properties: each NFT represents a unique work of art or a limited version, with ownership information recorded on a blockchain. This ensures that the work can be identified as original and that the owner can prove ownership of it.

Authenticity: the blockchain provides immutable proof of the provenance and history of a work of art, making it easier to verify the authenticity of a piece.

Traceability: blockchain technology makes it possible to track the transaction history of an NFT, including changes in ownership and changes in value over time.

Global access: artists can sell their works directly to collectors around the world without intermediaries, reducing transaction costs and expanding their market.

Smart Contracts: NFTs can include "smart contracts" that automate certain processes, such as automatically paying royalties to the artist every time the work is resold.