

Art as an Investment

Christine Alsters

Art and economics, two worlds colliding. But the art market represents an enormous amount of money. At 2 November 2006 the Jackson Pollock painting Dripping No. 5 fetched 140 million dollars by businessman David Martinez. Auction houses like Christies and Sotheby's report record prices being paid in an increasingly rapid way. Recent global art market transactions suggest the art market is booming and it offers lucrative profit possibilities. A large number of investors believe that buying art is not only a fun thing to do, but it is also a good investment from an economic point of view.

This indicates a relationship between money and art. Is art a collection of priceless aesthetic values, or is it a financial asset with returns? As a student Cultural Economics and Business Economics, the enormous art prices triggered me to investigate the possible relation between money and art. In this thesis a closer look at this relation is presented. More in particular: the realization of art prices during auctions at renowned auction houses. The aim of my dissertation is to create a model to analyze and quantify art prices.

The art market is more difficult to analyze than 'common markets'. One major obstacle in analyzing the art market is the fact that the supply-side consists of unique products only. Nevertheless, there are some characteristic values to identify, values you can measure and submit to statistical research. In my thesis I try to explain the returns of 4000 paintings auctioned by Christie's and Sotheby's in New York City between 1995 and 2005 based on regression analysis. The results of this analysis will be discussed in relation to the hypothesis that returns of an artwork can somehow be predicted.