

Asymmetries in Art Markets

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Chapter 5

Conclusion

This dissertation used the art market, an industry characterized by a high level of product heterogeneity, as a testing ground to investigate how intermediaries exploit information asymmetries to extract profits and generate a persistent competitive advantage. Furthermore, it provided insights into the extent to which uncertainty with respect to the quality of artworks limits the mobility of historically underrepresented market participants who are subject to larger information asymmetries due to their group belonging based on their gender. Focusing on the interaction between information asymmetries, prices and the behavior of agents, the thesis contributes to a deeper understanding of the sources and impact of informational advantage in markets that are subject to uncertainty about the quality of a good, the value of experts and the extent of inequality for underrepresented groups in these industries.

To briefly summarize, chapter 2 focused on expertise as a source of informational advantage. It studied the evolution of the art dealer profession over a time period of over a century, during the emergence of the modern art market in 19th century in London. It was shown that entry into the market coincided primarily with the intensity of the current trading activity of dealers and was deterred by increased competition. Furthermore, access to buyer and seller identities made it possible to observe the individual acquisition strategies that were used at auction to replenish dealer inventories. It was shown that dealers who accumulated a larger amount of expertise paid higher prices at auction controlling for artwork characteristics. The fact that these dealers could sustain a longer market presence lends support to the conjecture their expertise helped them form more precise signals on the value of the

artworks. It appears that the size of the premium paid at auction can be regarded as a proxy for the value they created as experts by lowering information costs for their clients. Chapter 3 focused on the informational advantage that arises from a network and took a closer look at the position of art dealers within the nexus of other buyers and sellers. Using Bayesian methods and network measures, it was found that an art dealer's likelihood to link to a seller increased with the size and depth of his network as well as with a higher degree of homophily between the agents. In addition, it was shown that a larger and deeper network exacerbated informational asymmetries across buyers, leading to higher profits due to lower prices, and facilitated longer market presence.

Overall, these two studies shed some light on how intermediaries who are active in a market characterized by uncertainty are able to exploit their informational advantage to extract larger profits. A limitation of these studies is the absence of a perfect proxy for artwork quality. While a large number of artwork and transaction characteristics commonly used in the art economics literature which explain a large amount of variation in prices was controlled for, the possibility that unobserved quality attributes lead to differences in the prices paid by different dealers cannot be excluded. One way to control for quality would be to use auction house pre-sale estimates that are commonly printed in auction catalogues prior to sales, but these were only institutionalized in the 1970s. Furthermore, data on the resale prices paid in the private dealer market is not available. As a result, the size of the profits dealers were able to extract from their auction acquisitions could not be quantified. To further advance art market research it would be crucial to gain more insights into the private businesses of art dealers which account for about 63% of sales within the art market (Pownall, 2017). However, this would require art market intermediaries to shift away from current practices that shield sales data from the public towards more transparency. Another interesting avenue for future research would be to investigate whether the influence of experts decreases with a larger amount of public information and more possibilities for cost-efficient self-representation for artists that came about with the emergence of social media.

Chapter 4, shifted the focus from art market intermediaries to the producers of art and tested whether the belonging to an underrepresented group can constitute a disadvantage when information asymmetries are present. In particular, the chapter analyzed whether there is a difference between the performance of female and male

artists in terms of prices achieved at auction. For this analysis, the entire population of fine art auction transactions for Western artists for the period between 2000 and 2017 was employed. It was documented that female artists were highly underrepresented at auction with a share of less than 5% in terms of sales value and volume with an increasing trend for younger generations of female artists. However, it was still found that art dealers tended to represent a higher proportion of male artists compared to female artists, despite an equal distribution of men and women graduating with fine arts degrees. Furthermore, it was shown that conditional on gallery representation, female artists were less likely to progress onto the auction market, which represents the secondary market, and is a sign of market recognition. The study provided evidence of an average price premium for artworks by deceased female artists and a price discount on artworks by contemporary female artists, suggesting that uncertainty about artwork quality might be driving the results. Lastly, it was shown that there was no single female artist traded at the superstar league of the market where 40% of revenues are still concentrated.

These results provided a snapshot of the current state of the art market with respect to gender equality, and can be used as an important input by regulators and art market institutions to design initiatives that help restore gender balance in the industry. One limitation of the study is that demand and supply explanations for the observed differences in performance for female and male artists cannot be disentangled. While the imbalance in artist representation in the primary market suggested that intermediaries might be partially responsible for female artists' lack of exposure to collectors and discriminate against women at the hiring stage, the discount for contemporary female lots at auction pointed to a demand side explanation. It is therefore important for future research to disentangle these two narratives. It is crucial to detect the leak in the pipeline where the attrition of women from the profession occurs and whether there is indeed a systematic bias among intermediaries or collectors. Moreover, analyzing purchasing patterns of different buyer types (whose identities remain undisclosed in both the private market and at auction) is also valuable for gaining insights on whether preferences are driving the difference in performance.

To conclude, the main findings of this thesis stress the importance of experts in settings of high uncertainty. Building up expertise yields considerable power and enables intermediaries to have more accurate price estimates and a higher chance of

survival in the market. Furthermore, a large and deep network with other market participants facilitates preferential access to information, improving conditions of exchange in the form of lower prices and a sustained market presence. Market structures that emerge from such dynamics result in a small number of very powerful intermediaries and persist over long periods of time. Additionally, with respect to the mobility of underrepresented groups, the thesis showed important divergences between the dominant group and the minority group. This suggests that industries characterized by large information asymmetries and high competition for ranks and profits, disadvantage groups who have historically been excluded from the market and for whom information is more costly to acquire.

“Die Wahrheit ist eben kein Kristall, den man in die Tasche stecken kann, sondern eine unendliche Flüssigkeit, in die man hineinfällt.”

Robert Musil, *The Man Without Qualities*