

# *Analysis of Factors Influencing Artwork Pricing*

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**Abstract:** Artworks, as unique commodities, possess both properties and aesthetic value. For consumers, understanding the factors affecting artwork pricing can mitigate the risks associated with market pitfalls. For collectors intending to sell artworks, knowing the factors influencing the pricing of artworks can help them better assess the value of their collections and make more informed decisions on when, where and how to sell. This paper analyzes the influencing factors on art prices from three perspectives: intrinsic attributes of artworks, demand dynamics, and special elements of the art market. Each factor's variation can lead to significant fluctuations in art prices.

**Keywords:** Artwork, Factors Affecting Pricing, Art Market Intermediary

## 1. Introduction

Artwork, alongside stocks and real estate, are considered as three major investment assets. Art assets have the following characteristics: Firstly, the threshold of art investment is high, art investment requires long-term accumulation of professional knowledge and market experience, and the high price of art makes the market become the exclusive stage for the rich, with a narrow scope of transaction, low frequency of transaction and poor liquidity. Secondly, the heterogeneity of artwork is high, and the subjective preference of investors varies greatly. Thirdly, investing in art entails high transaction costs, poor information transparency, and elevated risks. The costs of many aspects associated with artwork, such as appraisal, valuation, transport, storage and insurance, are higher. Consumers need to face substantial transaction costs if they engaged in artwork transaction through auction channels.

The value of artworks is determined by factors such as historical significance, cultural relevance, academic significance, and artistic merit. However, the price of artworks does not necessarily correlate directly with their intrinsic value and exhibits significant volatility[1]. indicates that the variance in art prices is two to three times higher than that of the Dow Jones Industrial Average and corporate bonds. Numerous scholars have investigated the pricing of artworks[2]. Finding a correlation between the rise in art prices and inflation trends. It suggests that income inequality can drive up art prices[3]. It proposes understanding art prices through social institutions, networks, and frameworks, suggesting that art prices are influenced by social and political forces within the market[4]. It analyzes Italian art prices between 2006 and 2010, identifying industry size, average prices, artist specialization, background, renown, production, market structure, nationality, and art period as primary factors affecting Italian art prices [5]. Finding that the consumer confidence of high-income groups and the popularity of the art market have a significant impact on art price trends[6] . Using data on market performance from 1148 artists in three Dutch museum digital

archives from 1930 to 1989, employ network analysis to study the influence of artist reputation on art prices[7] .

On the basis of previous studies, this paper aims to explore the various factors affecting the price of artworks from three perspectives: the intrinsic attributes of artworks, the demand for artworks and the special elements of the art market. It should be noted that the premise of all analyses in this paper is that the social order and economic structure are in a relatively stable state. In times of social instability, fluctuations in art prices often lack rationality and are not within the scope of this paper.

## **2. The Intrinsic Attributes of Artworks**

The intrinsic attributes of artworks form the foundational factors influencing their prices. This paper analyzes five factors related to artworks: the time of creation of artworks, the quantity in existence, the level of productions, size, and prestige.

### **2.1. The Time of Creation**

Time is the most direct factor influencing the price of artworks. This is because works created in earlier eras have undergone more comparisons and eliminations with contemporaneous and subsequent works. Among the remaining treasures, naturally, are the finest examples. Additionally, after numerous contemporaneous artworks and cultural artifacts gradually dissipate, those that are preserved not only possess their own artistic value but also acquire the added value of history from their contemporaneous works. This accumulation of historical significance over time gradually increases the value of the artwork, and after several years, it may become a priceless antique.

Generally speaking, the factor of time directly affects the scarcity of artworks. For artworks of the same type and similar quality, there is a significant positive correlation between their prices and the proximity of their creation time. However, if the production of artworks is very close to their sale time, and time does not directly influence the supply-demand relationship of the commodity, then the impact of the time factor on pricing may be minimal, or even negligible. Of course, different types of artworks have their own ranges for the temporal relationship between the time of sale and the time of completion of the artwork, requiring specific analysis based on the type of artwork.

### **2.2. The Quantity in Existence**

When artworks are generally the same, the quantity of artworks extant significantly influences their prices. For instance, for artworks of the same type, from the same era, with similar themes and quality, the larger the quantity of artworks extant, the more abundant the market supply, leading to lower prices of artworks. Conversely, if the quantity is lower, the prices tend to be higher.

### **2.3. The Level of Productions**

In this paper, the level of production in artworks can be considered as an alternative term for quality.

The quality of artworks directly determines their prices, which is undisputed. However, the issue lies in the subjective and stochastic nature of how artworks satisfy individual desires. Different people may have significantly different criteria for assessing the quality of artworks, leading to considerable pricing discrepancies for the same artwork among different collectors. In some cases, the irreplaceability of an artwork's ability to satisfy desires can greatly influence people's judgment of its quality.

Fortunately, although the quality of artworks cannot be quantitatively calculated in principle, common sense and expertise suggest that on most occasions there is a very strong positive correlation between the level of production and the quality of the artwork. For society at large, when discussing

market pricing, these two terms can almost be considered equivalent propositions. The term of production generally involves three aspects: difficulty, materials, and the inherent uniqueness of the artwork itself.

Difficulty is the most intuitive criterion for determining the level of production. The level of difficulty tests the skill of the maker, which typically reflects the quality of the product. Concepts such as “simple and natural” and “simplicity from complexity” are also reflections of the level of difficulty.

As artworks intended for collection, their level of production is sometimes directly reflected in the choice of materials. On one hand, the greater the difficulty in processing the materials, the higher the level of production required for the artwork. On the other hand, the preciousness of the materials used in the artwork will directly influence its pricing. It should be noted that since consumers purchase artworks primarily for collection purposes, the permanence of the materials is especially important for artworks.

Another intuitive criterion for assessing the level of production is to examine whether the artwork is easily replaceable. The more exquisite an artwork, the more difficult it is to replicate; conversely, the more difficult it is to replicate an artwork, the higher the artistic achievement it generally represents.

## **2.4. The Size of Artworks**

The size of artworks has a significant impact on their prices. For artworks intended for different purposes, the relationship between size and price needs to be analyzed specifically, but it is evident that price does not directly correlate with size. For instance, in the case of artworks used for decoration, the ideal size is typically one that fits well for home decor, such as a medium size. If an artwork is too large, it may be less desirable for display, resulting in a decrease in its price.

## **2.5. The Prestige of Artworks**

In the art market, the prestige of artworks significantly influences their prices. Being recognized by respected peers within the industry or having exhibitions in authoritative institutions such as museums not only reflects intrinsic rewards for artists but also serves as a prerequisite for obtaining external economic returns.

There are two main mechanisms by which works of art acquire prestige and thus increase in price. One is that works of art acquire fame by virtue of their own outstanding attributes. For example, works of art that are old, have a small number of survivors, or are of a high standard of production will naturally have greater fame, and their prices will be higher. Secondly, the artist directly confers his or her own fame to the artwork he or she creates. Artist popularity is like a brand guarantee for artworks. Putting aside the aesthetic enjoyment and spiritual enlightenment brought by the artworks themselves, some collectors actually have similarities with the purchase of luxury goods, i.e., they belong to the flaunting consumption, and the purchase of artworks is a sign to show off their social status, economic strength and cultural connotation. As a result, the reputation of the artist seems to become the brand trademark of the artwork, bringing brand premium to the artwork. In addition, by choosing a famous artist, collectors can also avoid the cost of searching the market for artworks with outstanding attributes, so naturally collectors will be willing to pay more money for the artist's reputation.

## **3. The Demand for Artworks**

The higher the demand for artworks, the higher their prices naturally turn out to be. This section will analyze several factors that influence the demand for artworks.

### **3.1. Overall Economic Level of Society**

Because artworks are not essential goods, demand for them is not rigid but highly elastic. Changes in the overall economic conditions can impact the art market, leading to fluctuations in art prices. When the overall economic conditions are low, people tend to prioritize cutting expenses on items beyond basic necessities, with artworks often being the first to be affected. Conversely, during periods of economic prosperity, the art market typically flourishes rapidly. This is because when economic conditions are favorable, people tend to have a certain limit on material consumption, beyond which there is not much growth. Excess funds will be consumed on the realm of spiritual life, with the art market being a major area of interest. Consequently, art prices rise accordingly.

### **3.2. Conditions of Other Investment Markets**

Other investment markets include the real estate market, stock market, the precious metal market, cryptocurrency market and so on. If other investment market are thriving with high returns, indicating a so-called bull market, the funds entering the art market will significantly decrease. Consequently, the market price of artworks under such economic conditions will be relatively low compared to when the art market is booming.

### **3.3. Overall Education Level of Society**

Under the condition of higher education level, people's cultural level usually increases in parallel. With a foundation of elevated cultural awareness, individuals tend to have a higher level of appreciation and are generally more inclined to consume artworks.

### **3.4. Influence of Culture and Trends of the Era**

The types of collectible artworks universally recognized worldwide are actually quite limited. The prices of most artworks are influenced by the cultural atmosphere of their circulation area, especially by the unique cultural concepts of nations and ethnicities. For instance, with the growing economic strength and purchasing power in China, the prices of jade, jadeite, and Chinese paintings have significantly increased over the past decade, which is clearly linked to the strong sense of identification among Chinese (ethnic Chinese) buyers with Chinese aesthetic culture.

At the same time, certain styles or themes of artwork may be more popular during a certain period of time, and their prices will naturally be relatively higher during this period.

In addition, if the origin of the artwork was created is associated with a certain highly publicized historical story, it may attract more buyers and thus increase its own price.

## **4. The Special elements of the Art Market**

The art market, compared to traditional financial markets, exhibits more frequent departures from rational market behavior, and the transaction prices of artworks also have some peculiarities.

### **4.1. Art Market Intermediary**

Among art market intermediaries, the influence of art transaction intermediaries on art prices far surpasses that of other general goods or investment intermediaries. On one hand, art transaction intermediaries play a crucial role in determining the transaction costs within the art market. Transaction costs refer to the expenses incurred in completing a transaction, encompassing both the time and monetary costs expended during the buying and selling process. The transaction costs associated with artworks include expenses related to disseminating information, advertising, market-

related transportation, as well as activities such as negotiation, consultation, contract signing, and contract execution supervision. In the primary market, artists sell their artworks to consumers through gallery representation, with galleries often extracting a significant percentage of commissions. In the secondary market, such as auction houses, high commissions are also levied during the transaction process, in addition to appraisal fees and advertising expenses. On the other hand, art transaction intermediaries have the capacity to actively manipulate art prices within a certain range. For instance, in the art market, transactional entities with strong reputations often command higher prices. Similarly, in the secondary market, art intermediaries exert more control over art pricing. They can regulate the influx of artworks into the market, determine the intensity of art promotion, and adjust the timing of art transactions. Generally, autumn auctions are more vibrant than spring auctions, resulting in higher art auction prices.

Other art market intermediaries encompass art banks, art funds, art trust investments, art pawnshops, art property trading, art insurance, art leasing, museums, art galleries, and art fairs. The flourishing and development of art intermediaries are conducive to advancing the financialization of artworks and fostering the growth of the art market.

#### 4.2. Art Critics

In the art market, there is a very special participant - the critic. Throughout the entire market transaction process, they are neither sellers nor buyers, yet their influence on art prices is significant, sometimes even determining whether a transaction can be successfully completed. Critics, especially renowned ones, shape consumers' value judgments of artworks through their writings, playing a guiding role in the market. This is particularly true for works by lesser-known artists in the market. The attention and evaluations given by critics largely determine the market trends of these artworks.

At the same time, the phenomenon of investors and critics colluding to manipulate for economic gain has also emerged. This requires critics to maintain an attitude of absolute objectivity and fairness. Otherwise, the short-term balance of the art market is inevitably disrupted.

#### 4.3. Anchoring Effect

Anchoring effect in the art market refers to the significant autocorrelation of artworks, whereby past transaction prices will often become an important reference for the next auction price of the artwork.. If an artwork lacks a sales record, the sales records of similar items serve as direct reference points. This is an unconscious psychological behavior but often influences the actual selling prices of artworks.

In markets with insufficient maturity or significant speculative activities, the anchor effect plays a significant role. In more mature market mechanisms, repeated bargaining tends to rationalize the sale of artworks. However, the potential negative impact of the anchoring effect should not be underestimated, as it is a universally existing psychological phenomenon, and anchor prices derived from historical prices often carry some randomness and arbitrariness.

#### 4.4. Region

Region is also a factor influencing the pricing of artworks. Apart from the specific types of artworks mentioned earlier, selling prices vary across different regions. For general artworks, the location of the auction venue directly affects pricing. Generally, auction prices correlate with the international financial influence of the region where the auction takes place. Founding that auction prices for paintings are highest in the United States[8]. On average, prices in the United Kingdom closely follow, reaching 72% of the U.S. level, while prices in Belgium are only at 22% of the U.S. level.

## 5. Conclusion

The transaction price of artworks often diverges from their artistic value, making the characteristics of their pricing difficult to determine, sometimes even highly complex and contradictory, displaying their inherent attributes and patterns. This paper focuses on the relationship between art and economics, with a focus on factors influencing the pricing of artworks, and analyzes from three aspects: the intrinsic attributes of artworks, the demand for artworks, and the special elements of the art market. Within the intrinsic attributes of artworks, factors such as the time of creation, the quantity in existence, the level of production, size, and prestige all have significant impacts on the pricing of artworks. The overall economic status, conditions of other investment markets, educational levels, etc., also indirectly influence the pricing of artworks by altering the demand curve for art. Additionally, within the art market, intermediaries and critics also wield considerable influence over the pricing of artworks.

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