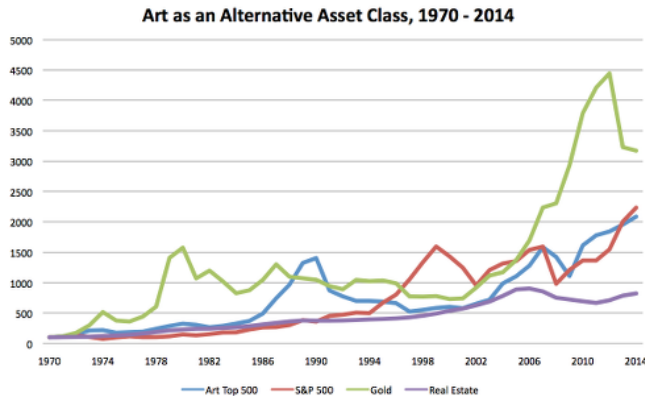


# Is there a bubble in the art market?

6 January 2016



Graph showing the dip in the art market in the early 1990s as well as the striking recovery following the 2008/09 crisis, based on the top 500 artists and compared to the development of gold and real estate prices, as well as the Standard & Poor's 500 stock market index. Credit: Roman Kräussl / University of Luxembourg

Researchers at the University of Luxembourg are warning of an overheating art market, one of the fastest-growing investment sectors of the past decade, after applying a new bubble detection method analysing millions of auction records.

Few sectors of the market have rebounded as robustly as art—particularly contemporary art, which has doubled in value since the beginning of the financial recovery following the 2008/09 financial market crisis. Pundits on the side-lines have commented that such market growth is unsustainable, warning there is a bubble in the making that is sure to burst, as seen in the early 1990s and in 2008/09. Headline-grabbing sales of post-war and contemporary works for over \$100 million appear to support this argument. But is a bubble really forming?

Market bubbles are generally defined as a dramatic escalation in the volume of trading in assets at prices that exceed their fundamental

value, followed by a sudden collapse. Rational expectations put the fundamental value of an asset as equal to its expected discounted cash flow. For most assets it is relatively easy to project this value—for example through dividends on stocks or rent on real estate. In the case of art, however, returns can rarely be correlated to costs of production.

To overcome this fundamental issue, Dr Roman Kräussl, Prof. Thorsten Lehnert and Dr Nicolas Martelin, all from the Luxembourg School of Finance at the University of Luxembourg, have used a new and direct statistical method of bubble detection. They analysed more than one million auction records from the past 36 years, examining six major art styles.

They were thereby able to identify two historical speculative [bubbles](#) and find an explosive movement in today's 'Impressionist and Modern', 'Post-War and Contemporary', 'American' and 'Old Masters' fine art market segments. In their research, published in the *Journal of Empirical Finance*, they conclude that today's art market shows sign of overheating, raising the potential of a severe correction in the foreseeable future.

## More information:

[orbilu.uni.lu/handle/10993/18519](http://orbilu.uni.lu/handle/10993/18519)

Provided by University of Luxembourg

APA citation: Is there a bubble in the art market? (2016, January 6) retrieved 27 November 2022 from <https://phys.org/news/2016-01-art.html>

*This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.*