**LITERATURE REVIEW**

The anchoring effect has been studied in numerous contexts ranging from the courtroom[[1]](#footnote-1) to online marketplaces such as eBay[[2]](#footnote-2). The art market is no exception, and the literature shows that first numerical impressions do seem to significantly impact sales, auctioneer estimates, and prices. Here, we provide an overview of research specifically helpful for understanding anchoring in the art market.

To our knowledge, a discussion paper by Beggs & Graddy (2005) is the first to examine anchoring effects (i.e. “reference dependence”) as well as loss aversion[[3]](#footnote-3) in the art auction market. To identify anchoring – specifically, the marginal impact of past price on current price (which is our definition) – they first construct two datasets of repeat sales of Impressionist and Contemporary paintings, including not only hammer price but also hedonic characteristics such as artist and medium. Their regression model isolates anchoring effects on the price for a second sale by controlling for hedonic characteristics as well as unobserved inputs into price such as bidder behavior. The authors find strongly significant evidence for anchoring in both Impressionist and Contemporary genres (though no evidence for loss aversion)[[4]](#footnote-4). The anchoring analysis in that discussion paper is formalized further in Beggs & Graddy (2009), which using the same resale approach and data, dives deeper into anchoring effects on price, presale estimates, and the probability of a sale[[5]](#footnote-5). For price, they find that anchoring effects are stronger for Impressionist art pieces than for Contemporary ones, particularly for items that are resold quickly after a first sale. They also find an association between presale estimates and anchoring, although anchoring does not seem to significantly affect the probability of sale. The anchoring analysis conducted by Beggs & Graddy (2009) forms the basis of our own approach, and we attempt to replicate some of their results for resold paintings in a later section.

Anchoring has been studied, in varying depth, by other art economists and researchers in recent years. Bruno and Nocera (2008) study the informational content of presale estimates, using a unique dataset of 2,000 resale pairs of Italian paintings (1985-2006)[[6]](#footnote-6). Using a dummy variable approach, they find significant evidence of anchoring: knowledge of past sale prices do seem to impact presale estimates[[7]](#footnote-7). This insight is consistent with what we learned through interviews, namely, that specialists at auction houses do research past sales before formulating estimates. Graddy et al. (2014) extends the work in Beggs & Graddy (2005) by studying anchoring in more depth

the anchoring (and also loss aversion) in more depth

< at end, more tangential works such as ‘failing to meet the reserve price’, ‘declining values’, ‘does the sun shine on art prices’ etc.>

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Anchoring, resale – less important since it’s an unstable assumption to assume that artwork (e.g. prints, become torn faded etc.; even replacing canvas on back – RB ’15) remains the same over time – MB ’00. Hence, if even the same artwork does not remain the same, why not use substitutes? (if does remain same, probably more impressionist art since better taken care of over time, more famous works; this may be another reason why Impressionist art shows stronger anchoring effects, compared to Contemporary art, in Beggs & Graddy (2009)).

1. Mussweiler, Thomas. "Sentencing Under Uncertainty: Anchoring Effects in the Courtroom1." *Journal of applied social psychology* 31.7 (2001): 1535-1551. [↑](#footnote-ref-1)
2. Lucking‐Reiley, David, et al. "Pennies from ebay: The determinants of price in online auctions\*." *The Journal of Industrial Economics* 55.2 (2007): 223-233. [↑](#footnote-ref-2)
3. Beggs, Alan, and Kathryn Graddy. "Testing for reference dependence: An application to the art market." (2005). [↑](#footnote-ref-3)
4. Loss aversion is another behavioral bias that says losses are felt more strongly than equivalent gains. [↑](#footnote-ref-4)
5. Beggs, Alan, and Kathryn Graddy. "Anchoring effects: Evidence from art auctions." *The American Economic Review* 99.3 (2009): 1027-1039. [↑](#footnote-ref-5)
6. Bruno, Brunella, and Giacomo Nocera. "Investing in art: The informational content of Italian painting pre-sale estimates." *Available at SSRN 1179183*(2008). [↑](#footnote-ref-6)
7. Specifically, both the relative and absolute range between low and high estimates. [↑](#footnote-ref-7)