STORY BEHIND THE SKY-HIGH CHINA'S ART MARKET

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Abstract

The auction market for Chinese arts has recently drawn unprecedented enthusiasm. Trading volume has been growing at an annual rate of 55% from 2004 to 2008. Using a new dataset of auction records, this paper examines the efficiency and risk-return characteristics of the market for Chinese paintings and calligraphies, the mostly traded genre in the Chinese auction market. In comparison with Chinese common stock and gold, art market have had the highest return yet only moderate risk, suggesting paintings have been a better investment than common stock. Indeed, in contrary to the findings in markets for Western artworks, masterpieces do outperform the market and death effect is not significant, which provide the evidence of speculative fever in some extent. Furthermore, the expanding income inequality is an important reason for entire market skyrocketing. Overall, the market has behaved quite differently after the year of 2003; significantly increased return, trading volume, and frequency with which artworks change hands are suggestive of a bubble-like behavior.

Key words: Price Index; Repeat Sales; Art Market