

**Old Master Paintings:
Price Formation and Institutional Implications**

Paolo Figini

Department of Economics
University of Bologna
Piazza Scaravilli 2
I - 40139 Bologna
Italy
Tel. +39 051 2098150
Fax +39 051 221968
E-mail paolo.figini@unibo.it

Laura Onofri

Faculty of Economics (Rimini)
University of Bologna
Via Angherà 22
I - 47100 Rimini
Italy
Tel. +39 0541 434151
E-mail lonofri@rimini.unibo.it

Abstract

The economic literature offers two main different positions on the problem of price determination in the art market in general, and for paintings in particular. On the one hand, Baumol (1986) writes that "the demand fluctuates widely, following collectors' fads and manias and painting prices are therefore inherently unpredictable". On the other hand, Frey and Pommerehne (1989) assert that art objects are assimilated to any other economic good, for which price is determined by market forces.

Following this second approach, the research has recently focused on the structure of prices in the art market, in order to find a common structure beyond the heterogeneity of paintings. One of the approaches used to predict prices and identify price indices is identifiable by the hedonic methodology.

In this paper we focus on two issues. First, by using the hedonic methodology, we attempt to identify the elements that determine the painting price, particularly with respect to Old Masters Paintings (OMP). Such methodology has the obvious advantage to allow for the estimation of the value of a given painting by adding the shadow prices of its characteristics. Second, the empirical evidence is critically discussed from an institutional perspective, wondering whether the policy maker might elicit useful insights for the targeting of policies and the design of proper rules in the art market.