NFT Royalties and Art Market Efficiency
by
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Abstract: A non-fungible token (NFT) is a uniquely identified digital asset that is verified using blockchain technology to prove ownership and authenticity. NFTs can be associated with a wide range of digital assets, including digital arts. A distinctive feature of NFTs is that they allow creators to receive royalties each time their work is sold on a secondary market, whereas in traditional art market, artists do not receive any royalties when their works are resold. In this paper, we build a signaling model to show how royalties affect the pricing decision of creators and the art market efficiency. We show that in the traditional art market, a high-type creator tends to charge too high a price to signal high quality, which makes the demand too low and the size of art market too small. In an NFT market, royalties reduce the high-type creator’s price distortion and also make the efficient separating equilibrium more likely to hold. Thus, the art market efficiency can be improved.

Bio: Xinyu Cao is now a visiting scholar at the Department of Marketing in the Chinese University of Hong Kong (CUHK) Business School. She is also on leave from New York University, where she has been an Assistant Professor of Marketing since July 2018. Prior to that, she received her PhD in Management (with a concentration in Marketing) from MIT Sloan School of Management. She also holds a Master’s degree in Industrial Engineering and Operations Research from University of California, Berkeley and a Bachelor’s degree in Mathematics and Physics from Tsinghua University. Prof. Cao’s research focuses on the area of quantitative marketing, with emphases on market research methodology, online advertising, online platforms, and social media. Her research works have appeared in Marketing Science, M&SOM, and Marketing Letters. She has won the John D.C. Little Award for the best marketing paper published in INFORMS journals, and also been a finalist for the Frank Bass Award for the best marketing thesis. She is now an editorial board member for Marketing Science.

All interested are welcome!
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