

How are NFTs affecting the art market?

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Abstract

Recent events surrounding NFT works have attracted major monetary interest, thanks to record-breaking sales. The introduction of digital art has already had an impact on the market. As a result of emerging technology, new kinds of supply and demand arise alongside online platforms. The evolution of NFTs, as well as for cryptocurrencies, is expected to have a substantial impact on the processes that have represented the art industry for years. This study aimed to investigate how NFTs affect the art market to achieve youthful, privileged customers as well as maintain credibility. And to analyse the factors necessary for the effective utilisation of NFTs in the art market. As this study intends to analyse the opportunities of the NFT in the art industry, a descriptive method was selected as the study methodology. The emphasis of the information gathering is on recognising applicable concepts that expose both clients' as well as companies' perceptions as well as intentions towards the 21st-century concept of art as well as its usage in the domain of NFTs. We provide the outcomes of our primary investigations. We begin by describing the features of the NFT on its initial listing day. Following that, we create an NFT price index that measures the long-term change of the NFT price in the market. As the last step, we will conduct a case study to determine the effect of NFTs on the Art market.

Keywords: Non-Fungible Token, NFT, Blockchain, Crypto, Art market.

1. Introduction

Fairly recently, the term "non-fungible token" (NFT) has become something of a trend in the world of digital art. Recent events surrounding NFTs have attracted major financial interest, thanks to record-breaking purchases (Weiner, 2021). The introduction of digital art has already influenced the market. As a consequence of new technology, new kinds of market forces arise alongside online platforms. The evolution of NFTs and cryptocurrencies is anticipated to have a substantial influence on the processes that have defined the art industry for centuries.

This study investigates how the commerce of NFT has the capacity to alter the mechanics of the contemporary art world. The research is organised as such. Initially, The first section provides an outline of the worldwide art market, as well as an assessment of its key features. Literature studies on blockchain technology and the peculiarities of NFT are provided in an attempt to create a deeper grasp of the mechanisms of Crypto artworks. The findings from the research are examined after that, which is followed by the conclusion.

1.1 Background

Non-fungible tokens are Ethereum blockchain-based cryptographic currencies. Similar to Bitcoin, NFTs are "minted" and eventually traded (Bsteh & Vermeylen, 2021). The key variation is that Bitcoin is "fungible." If you trade Bitcoin with another person, you still have the equivalent capital. There is no practical distinction between the different Bitcoins. NFTs, however, are "non-fungible." Every token is unique, on top of that it affirms only the creator is the sole proprietor of a digital asset. The NFT is recorded on a shared blockchain that cannot be altered once it is minted on the Ethereum blockchain. One can show they own the artwork by possessing the token. There's nothing preventing someone from seeing, duplicating, as well as reselling an electronic art piece on the web, but due to NFTs, they can't pretend to possess it. Unique possession of the art is presently attainable thanks to NFTs, which was not possible before. The only significant distinction is that NFTs allow for the verification of digital asset ownership (Tripathi, 2022).

2. Literature Reviews

“NFTs and Their Effects on the Art Market in 2021”

According to the findings of Delaplaine's study, the public, as well as the art market, became interested in NFT crypto art during the first half of 2021. This was due to the increase in prices at which the artwork was sold as well as the acceptance of cryptocurrency by auction houses. There is nothing new about the art form known as digital art. It is conceivable to trace its origins all the way back to the 1940s, although its beginnings may have been somewhere between the late 1960s and the early 1970s. During the course of this history, the boundaries between technology and art have become more porous and less distinct, and in many cases, they have merged into the creation of brand-new forms of artistic expression. When historians try to trace the birth of digital art all the way up to the present day, it may be difficult to determine whether scientists affect artists or whether artists modify technology (Delaplaine, 2022). Crypto art poses a huge new set of risks to both the environment and the art industry, despite the fact that it provides purchasers and artists with a distinctive set of benefits. Collectors and artists need to figure out how they want to preserve and maintain works of art whose technology will inevitably become obsolete in the future, while institutions, collectors, and galleries experiment with the best methods to save and show crypto digital art.

“From canvas to key: The role of NFTs in the digital transformation of the art market”

This study by Saygin and Findikli investigates how marketing and art have coexisted throughout the course of history and how their relationship has changed over time. The article makes use of non-fungible tokens (NFTs) to highlight how the influence of digitalization on art-related marketplaces and the dynamics between buyers and sellers in an area where aesthetics and subjectivity are of utmost importance, such as art. NFT technology, which is susceptible to constant digital transformation, increases the relevance of the work's value and ownership in the art market (Saygin & Findikli, 2021). Art markets have also profited from the shifts that have taken place in the virtual economy and marketplaces based on cryptocurrencies as a result of the digital settings in which they operate. This particular share places an emphasis not only on the democratisation of the art sector but also on the value-added component of the principal marketing axis feature. Artists who are in the position of dealers are able to increase both their revenues and their copyright holdings with the help of NFTs. Purchasers are able to carry their ownership into eternity with just a password and something called "digital property certificates," eliminating the need for any kind of intermediary. This research aims to deliver a conceptual foundation for this new development by demonstrating how the marriage of art and marketing in digitalization is mirrored in art marketing. In light of the fact that no data were collected and the fact that this study is purely theoretical, an effort was made to explain the application of NFT to art marketing by means of a flowchart by examining the relevant sources.

Blockchain and art market: resistance or adoption?

In this study by Abbate et al., the researchers argue that Blockchain technology is now promoting a larger societal as well as technological transformation that touches multiple potential deployment areas such as transactions, monitoring and tracking methods, validity, and so on. They say this is happening because Blockchain technology is a decentralised ledger that can be shared and verified by multiple parties. The widespread use of this technology poses a significant threat to the current state of the creative environment (Abbate et al., 2022). The articles that surround the links, as well as applications of blockchain in the art business, are scattered, and there is a lack of clarity on the present benefits of its deployment. The use of NFT is the topic of investigation in this research that was carried out. In this research, a qualitative investigation centred on semi-structured conversations with experts from the art sector is carried out with the aid of a structural as well as technology theoretical viewpoint. The findings provide light on the difficulty of making efficient use of this technology, the divergent opinions on its benefits and economic potential, as well as the resistance to change and lack of trust among market players. In addition, both the conceptual and practical repercussions are discussed.

NFTs and the Art World

This article by Murray debunks six myths, misconceptions, and poorly understood truths about non-financial transfers (NFTs), which prevent individuals and, in particular, art law attorneys from comprehending the role NFTs play and could play in the art world and beyond. This article examines the reality and mythology of non-financial transfers (NFTs) in art law and the art world (Murray, 2022). This article is written for lawyers who seek to provide advice to artists, dealers, gallery owners, and museum curators. It is also meant for those individuals who are interested in collecting art. It is also possible that it may help to educate authorities, who may then strive to prohibit the most harmful fraudulent activities and abuses that occur inside this ecosystem. If these theories and misunderstandings regarding NFTs are best understood in aspects of what is authentic and what is not, then the preconceptions of customers can be adapted towards a more rational standard, legal assessment, as well as guidance, could be quite helpful, and authorities may be able to discover a way to assist the NFT ecology in functioning more efficiently without suppressing its ground-breaking possibilities.

2.1 Research Gap

There is a shortage of optimal practices, developmental project expertise, as well as views on blockchain-based software development in the present collection of information. As a result, we have arrived at the conclusion that there is an obvious research gap. We want to fill that need by illustrating the application of NFT in a particular field by providing a response to the key questions.

2.2 Research Question

- What are the benefits and challenges of the practical use of NFTs?
- How could the commerce of NFT alter the way art markets work?

2.3 Importance of the Study

While fungible tokens have opened the door to novel application scenarios like initial coin offerings (ICOs), the viability of non-fungible tokens as valued components is still up in the air. This study fills up this information gap, both theoretically as well as practically, and proves the usefulness of non-fungible tokens in the context of the art market.

2.4 Research Objectives

- To investigate how NFTs affect the art market to achieve new generations of fairly young prosperous customers as well as maintain credibility.
- To investigate the factors necessary for the effective use of NFTs in the art market.

2.5 Scope and Limitation

To begin, there is a rather small number of relevant examples to analyse since the art sector has only just begun to experiment with NFTs. As a result, the number of relevant instances that may be researched is fairly restricted. In order to generalise the results more accurately, a larger quantity of both the relevant literature and actual instances should be added. Furthermore, the repercussions of NFT initiatives are still currently underway: the long-term repercussions, both financially and graphics should be analytically assessed again after some time has gone after the first evaluations have been completed. After then, more complete findings may be attained by merging the most recent information on the long-term effects of deploying NFTs with the data collected from a number of separate research.

3. Research Methodology

Since this research's objective is to investigate the possibilities of the NFT in the art marketplace, empirical research was picked as the study framework. The emphasis of the information gathering is on recognising pertinent topics that unveil both consumers' as well as companies' behaviours as well as intentions towards the 21st-century concept of art as well as its implementation in the scope of NFTs. Because of this, a subjective investigation is an ideal way to resolve the study queries because it gives a rich as well as a thorough summary of people, their habits, as well as their perceptions.

3.1 Research Method & Design

The research is conducted by reviewing papers and reports about NFTs and the art market. It has recently been feasible to notice that the whole turnover on the art market witnessed a rise of +2700 per cent between the years 2000 and 2020. This was facilitated due to the increased openness as well as the increased accessibility to data. The expansion of the art market, which was once limited to the Western hemisphere, is currently taking place on all the continents of the world. It has recently been considerably pushed by a genuine boom of the media engaged by artists as well as the onset of young artists with incredible auction debuts in what is evidently now an effective market.

3.2 Research Approach

A qualitative method was used in an attempt to study the topic of how the NFT may have the ability to alter the mechanics of the art markets. This was done by asking the question "In what manner does the NFT involve the possibility to modify the characteristics of the art markets?" Art experts were asked in-depth questions throughout the interview process. The discussions were organised such that they followed the principles that were taken from the literature research. The candidates had received the guidelines in the emails before the actual interview. In an attempt to study the ideas in a way that was open to interpretation, the discussions were conducted using a semi-structured methodology (Edwards & Holland, 2013). The results were categorised about the ideas of basic features of Crypto art as well as its interrupting impacts on relevant parties in an attempt to draw a conclusion on the possible impacts of selling NFT art on the mechanics of the art industry. In conclusion, innovative ideas that direct viewpoints on art as an investment as well as wealth generation were found.

4. Analysis of Study

The data analysis approach for this research was an innovative procedure that included inferential explanation, speculating, as well as more importantly, connecting many ideas and theories in order to get a useful result. The information was coded throughout and the data was sorted in a logical manner into distinct categories once it was gathered. This allowed for the detection of major Concepts as well as trends, and the extraction of meaning from raw data, resulting in the construction of a logical chain of proof.

The information gathered shows a variety of motivators and causes for the art industry to begin experimenting with non-fungible tokens. This demonstration also demonstrated the many choices available for exploiting these digital resources to strengthen one's company reputation as well as to better address the rising target group of youthful, more wealthy clients. The information gathered, which demonstrated how the art sector may profit from the use of NFTs, was divided into four general categories: 2) Cultural affirmation, 3) a mixture of the digital and exploratory and the tangible, and 4) one-of-a-kind and rare 4) The development of a sense of community. These topics are not necessarily presented in any particular sequence and may, in some circumstances, be linked. Last but not least, this study demonstrates via the use of these case studies how the art sector might profit from the use of NFTs.

In the last test, we conduct an event analysis to determine the impact on the value of the blockchains as a result of the incorporation of NFT technology into their respective ecosystems. Our research identifies the first press releases of numerous NFT applications and NFT collaborations created between blockchain developers and NFT firms, both in the United States and abroad. In order to do this, we rely on Internet sites that are specialised in cryptocurrency news coverage. Our technique for estimating daily cumulative abnormal returns surrounding NFT announcements is based on the usual event research methodology, and we provide the valuation impacts on a two-day timeframe. We discover that the integration of the NFT studios and NFT markets into the current blockchain infrastructure results in billions of dollars in aggregate profits for all parties involved. Solana's market value climbs by 22 per cent, or \$3 billion in dollar terms, after the announcement of two revolutionary new financial technologies to be developed on the Solana blockchain technology.

5. Results

In this part, we provide the findings of our primary investigations. We begin by describing the features of the NFT on its initial listing day. Afterwards, we proceed to calculate NFT volatilities, raw returns and returns on a market-adjusted basis, among other things. The NFT alphas and betas are examined in the next phase. Following that, we create an NFT price index that measures the long-term change of the NFT price in the market. As the last step, we will conduct an event study to determine the impact of NFTs on the Art market.

6. Conclusion

In the realms of non-traditional art, it seems that the democratisation of the digital art market is taking place. Furthermore, internet platforms and social media networks are gaining importance. These later items, which serve as a focal point for the transmission of knowledge, are very valuable to creatives, their community members, as well as collectors alike. This does not inherently imply that conventional gatekeepers would suffer as a result of this. These later parties have the opportunity to engage in the selling procedure and to promote creatives via smart label development on and offline platforms, respectively.

The adaptation to this procedure, on the other hand, is no longer a discretionary decision. Another development is the introduction of a new kind of gate-keeping system. Not only is technological expertise required for the production of digital art, but it is also required for the effective long-term investment of capital. Collectors who join the industry slightly earlier as well as get aware of the unofficial complexities that exist among artists' groups, as well as their tales, may be able to realise significant financial benefits. The motivations that have guided the acquisition of NFT artworks to this point have not been mainly pecuniary in nature.

6.1 Future Scope

Many challenges, however, accompany the increasingly widespread use of NFTs, including the absence of industry-wide safety guidelines for agreements, ambiguity concerning intellectual property rights, scam risk factors linked with artist imitation, an openness that jeopardises consumer safety as well as confidentiality, and severe detrimental ecologic consequences as a result of the large amount of energy consumed. Many of these issues can be addressed with viable solutions, such as the utilisation of zero-knowledge proofs for enhanced confidentiality, non-browser wallets for advanced security of crypto resources, as well as the migration of blockchain development to more eco-friendly systems like SolarCoin and BitGreen. Because these solutions have not yet gained traction within the broader blockchain society, the problems proceed as well as have not yet been effectively resolved in light of the enormous possibility of NFTs, whose market is expanding at a fast pace.

6.2 Suggestions

NFTs are causing havoc in the art sector by altering the manner in which artwork is exchanged. Using platforms like OpenSea and Foundation, digital art creators may sell their creations directly to collectors, bypassing the need for intermediaries such as dealers and galleries. It's no surprise that auction houses are eager to be a part of this historic transformation.

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