

Name: _____

Some Economic Concepts in *Modern Art*

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Speculation- A financial action (for example, buying an expensive painting) that does not promise the return or increase of the original money invested.

Expected Value- The sum of the probability of each possible value multiplied by that value.

Examples:

50% probability of \$50, 50% probability of \$0: $(.5*50)+(0*10)=$25$ =**expected value**

25% \$1, 50% \$10, 20% \$20, 5% \$50: $(.25*1)+(.5*10)+(.2*20)+(.5*50)=34.25 =**expected value**

Common Value Auction- When the value of an item is roughly equal to all bidders, but the bidders do not know the item's market value when they bid.

Winner's Curse- The fact that the winner of a **Common Value Auction** is likely to have overestimated the value of the item (assuming bidders tend to accurately estimate the value of an item), because the winner of a **Common Value Auction** is the highest bidder.

Bid Shading- Bidding lower than the expected value of an item to avoid the **Winner's Curse** and to optimize their expected value by lowering their chance of winning in return for a higher payoff if they do win.

Path Dependency- When past decisions affect the costs and benefits of similar future decisions.