

Report on Bachelor Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University

Student:	Anna Nakipova
Advisor:	doc. Martin Gregor
Title of the thesis:	Hybrid Crowdfunding in Art Industry in Europe

OVERALL ASSESSMENT *(provided in English, Czech, or Slovak):*

Short summary

Hybrid crowdfunding is a mechanism where the contributor receives a mix of rewards (goods) and financial payments/instruments (typically equity). The thesis shows that (in a very simple setup) it is possible to infer willingness to pay for the good by appropriately constructing the mix. Hybrid crowdfunding thus can potentially serve as a marketing mechanism (of conjoint analysis) which has been mentioned in the previous literature (e.g. Agrawal et al. 2014) but has not been, to my best knowledge, formally examined in depth.

In addition, the thesis discusses the art market as a market where hybrid crowdfunding has the potential to be applied in particular. First, crowdfunding is fairly developed in the art markets. Second, out of the potential contributors, it may be feasible to construct a representative sample of potential consumers; in the art markets, the mechanism would target wealthy people who are interested in the art both as investment and consumption good.

Contribution

The thesis builds on the classic mechanism in Becker, DeGroot and Marschak (1964). The idea is that willingness to pay for a good of a person can be derived if the good is given a random price and is allocated to a person based on his/her previously stated willingness to pay.

First, the author reviews this classic mechanism and shows its properties; in particular, the author proves truthfulness in several settings. This is a key step for the second part where the author delivers the main contribution; based on my initial suggestion, the author builds a simple hybrid crowdfunding mechanism as a mechanism where a contributor provides funds and then, based on the price at which the good is traded and his/her level of contributions, receives a mix of the good and financial payment.

Specifically, it is proved that the amount of the contributor's funds gives information on the contributor's willingness to pay. Also, it is also found that the contributor is not better off by providing only funds (i.e., buying later) or overstating her demand (i.e., selling on the secondary market).

Methods

The thesis is analytical. When judging the methods, it must be stated that the analytical methods of how willingness to pay is derived are not currently taught in the curriculum (only some parts relevant to non-market goods are in an environmental economics course), so I appreciate that the author took this opportunity to learn and apply brand new analytical material.

Literature

The economics literature on hybrid crowdfunding is very small. The thesis reviews the main contributions and also covers crowdfunding in general (where the literature is vast and spans several fields).

The thesis and its potential application in the art markets are also well-motivated, following the interests of the author in the art markets. (Given the primarily analytical focus of the thesis, the institutional details of these markets have not been covered at length, but the key parts are still in the Introduction.)

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Manuscript form

The thesis went through multiple rounds of editing and is clean in my view.

Even if the thesis eventually drifted to a purely analytical work, we agreed to keep the original title which suggested a more applied work (as the original plan was to discuss more the institutional details of the art markets).

Overall evaluation and suggested questions for the discussion during the defense

To conclude, I find the idea of using hybrid crowdfunding in specific markets (where wealthy contributors are possibly representative of consumers) a very interesting idea, and its application in the art industry as highly relevant. Even if the thesis develops a very simple analytical setting based on a very old mechanism (Becker, DeGroot, and Marschak, 1964), I still find this simple use of the mechanism in this context interesting.

My question for the defense is about the situation when two goods exist, and the valuations of the two goods are not necessarily independent (e.g., the participant needs only one sculpture in the garden – the goods are substitutes; or, two paintings create a nice pair – the goods are complements). How would you then recommend deriving willingness to pay through hybrid crowdfunding? (This question is motivated by the fact mentioned on p. 11, namely that reward-based crowdfunding is typically small whereas equity-crowdfunding is typically large. This suggests that for an artist, in order to reach the scale of equity-crowdfunded projects, it may be necessary to raise funds for a collection of rewards; but then we need a scheme that infers willingness to pay for bundles of rewards.)

In my view, the thesis fulfills the requirements for a bachelor thesis at IES, Faculty of Social Sciences, Charles University. I recommend it for the defense and suggest a grade A.

SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY	POINTS
<i>Contribution</i> (max. 30 points)	28
<i>Methods</i> (max. 30 points)	25
<i>Literature</i> (max. 20 points)	19
<i>Manuscript Form</i> (max. 20 points)	20
TOTAL POINTS (max. 100 points)	92
GRADE (A – B – C – D – E – F)	A

NAME OF THE REFEREE: doc. Martin Gregor

DATE OF EVALUATION: August 22, 2024

Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

CONTRIBUTION: *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

METHODS: *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

MANUSCRIPT FORM: *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

Overall grading:

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F