The Difference Between Price and Value: Market Price and Valuation Price as Competing Measures of Worth

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Abstract

Every transaction in a market economy rest on an unspoken tension between two questions: *what did this sell for?* and *what is this actually worth*? The first question is answered by market price, an empirical, historical fact produced by the meeting of a willing buyer and a willing seller at a single moment in time. The second is answered by valuation price, a constructed, theoretical estimate produced by applying disciplined methodology to available evidence. This paper argues that market price and valuation price are not merely two numbers that occasionally disagree, but two fundamentally different *ways of knowing* the worth of an asset: one empirical and transactional, the other analytical and prospective. Using real estate, corporate finance and public securities as parallel case studies, the paper traces the mechanisms by which each figure is produced, the institutional purposes each serves and the conditions under which the gap between them widens or closes. It concludes that the durability of this gap is not a market inefficiency to be eliminated but a structural feature of how economies allocate risk, trust and information.

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1. Introduction

In everyday language, "price" and "value" are used almost interchangeably. A person might say a house is "worth" $450,000 and, in the same breath, note that it "sold for" $450,000, as though the two statements were redundant confirmations of the same fact. In practice, they rarely are. A house can sell for far more than any appraiser would certify as its value, as happens routinely in competitive bidding wars. A company's shares can trade on a public exchange at a price that most analysts agree bears little relationship to the discounted value of its future cash flows. A business can be appraised by a certified valuator at one figure and change hands, weeks later, at a figure 30 percent higher or lower (Fernández, 2007; Corporate Finance Institute, 2025; Clark Nuber PS, 2024).

These are not anomalies. They are the predictable result of two distinct systems for establishing worth operating side by side, each with its own logic, its own evidentiary standards and its own institutional stakeholders. Understanding the difference between market price and valuation price

is not a semantic exercise. It is a prerequisite for interpreting almost any economic transaction correctly. From buying a home, to raising capital, to settling a divorce, to paying an estate tax, to pricing a merger.

This paper develops that distinction in several parts. Section 2 defines each concept and its underlying epistemology. Section 3 examines the mechanisms (behavioural, methodological and institutional) that produce each figure. Section 4 argues that the deepest driver of the gap between the two is asymmetric information and formalizes this using the classic microeconomic theory. Section 5 applies the combined framework across three asset classes: residential real estate, private business valuation and public equities. Section 6 considers when and why the two figures converge or diverge and what that divergence reveals about market efficiency. Section 7 concludes.

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2. Two Definitions, Two Epistemologies

2.1 Market Price: The Empirical Fact of Exchange

Market price is the amount of money that actually changes hands in a completed transaction between a buyer and a seller acting without compulsion. It is, by definition, retrospective meaning it can only be known with certainty once a deal has closed. Before that point, an asking price, a bid, or an offer is merely a hypothesis about where the market price might land.

Market price is fundamentally a *social* fact rather than a *technical* one. It is produced by negotiation, competition, timing, information asymmetry and critically emotion. Two functionally identical apartments in the same building can sell for meaningfully different prices depending on how many other buyers were bidding that week, how motivated the seller was, whether the buyer had fallen in love with a view, or whether a bank's interest-rate decision landed the day before closing. None of these factors bears on the underlying physical or economic characteristics of the asset; all of them bear on its market price (Beckert, 2011; Finez & Eloire, 2024; Zhang & Zhang, 2021).

Because it emerges from the specific circumstances of a specific transaction, market price is inherently non-repeatable. The same asset sold twice, a month apart, to two different buyers, might command two different prices, not because the asset changed, but because the *conditions of exchange* changed.

2.2 Valuation Price: The Constructed Estimate of Worth

Valuation price, often called market value, fair value, or appraised value depending on context, is a professional's reasoned estimate of what an asset *should* sell for under normal, unpressured conditions, given everything currently known about it. It is prospective rather than retrospective: it does not report what happened but predicts what would happen under idealized conditions.

The most widely cited formal definition from the International Valuation Standards Council (2021) describes market value as the estimated amount for which an asset or liability should exchange between a willing buyer and a willing seller, each acting knowledgeably, prudently and without compulsion, following proper marketing. Note the conditional grammar, "*should exchange",* which marks valuation as an act of professional judgment rather than a record of fact.

Valuation is produced through disciplined, replicable methodology: comparable-sales analysis, income capitalization, discounted cash flow modelling, cost-based replacement analysis, or some blend of these (International Valuation Standards Council, 2016). Because the methodology is standardized and the appraiser is (ideally) a neutral third party with no financial stake in the outcome, valuation price aims to strip out the idiosyncrasies of any single transaction and answer a more abstract question, not "what did *this* buyer pay," but "what would a rational, informed market pay on average."

2.3 The Core Distinction

Table 1 highlights the key differences between market price and valuation price. The distinction, reduced to its essence, is this:

Table 1

Dimension	**Market Price**	**Valuation Price**
Nature	An empirical fact	A professional estimate
Temporal orientation	Retrospective (what happened)	Prospective (what should happen)
Author	Buyer and seller, jointly	A licensed appraiser, analyst, or valuator
Method	Negotiation and competition	Standardized methodology (comparables, income, cost, DCF)
Reproducibility	Unique to one transaction	Intended to be broadly defensible and repeatable
Primary consumers	The transacting parties	Lenders, courts, tax authorities, regulators, boards
Vulnerability	Emotion, urgency, information asymmetry, competitive pressure	Data quality, model assumptions, appraiser judgment

The remainder of this paper is devoted to unpacking how each side of this table is produced and why the two sides so often fail to meet.

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3. The Mechanisms of Divergence

3.1 What Drives Market Price

Market price is the output of a negotiation between two parties whose incentives are opposed but whose information is rarely equal. Several forces routinely push market price away from any "fundamental" figure:

- **Scarcity and competition.** When multiple buyers want the same asset simultaneously, the price is set not by the asset's characteristics but by the willingness of the *second-highest* bidder to keep bidding, a dynamic economists call the winner's curse (Bazerman & Samuelson, 1983).
- **Urgency and motivation.** A seller facing foreclosure, or a buyer relocating for a job with a hard deadline, will accept terms a patient, well-capitalized party would reject.
- **Information asymmetry.** One party may know something the other does not (about a property's structural condition, a company's pending litigation, or a stock's under-the-radar catalyst) and price accordingly.
- **Sentiment and narrative.** Especially in public markets, price can be driven by collective belief about the future rather than any present, measurable fact (the basis of speculative bubbles and panics alike).
- **Liquidity conditions.** The number of active buyers and sellers and the ease of financing, materially shift what a "fair" negotiation can produce, independent of the asset itself.

None of these forces is irrational in the sense of being a mistake; they are simply forces that valuation methodology is explicitly designed to filter out.

3.2 What Drives Valuation Price

Valuation methodology aims for objectivity through procedural discipline rather than through claiming access to some platonic "true value." The three canonical approaches are:

1. **The sales comparison approach**, used heavily in residential real estate, which infers value from recent, similar transactions, adjusted for differences in size, condition and location.
2. **The income approach**, used for income-producing assets such as commercial property or operating businesses, which capitalizes expected future cash flows into a present value.

3. **The cost approach**, which estimates value based on the cost to replace or reproduce the asset, less depreciation, most relevant for unique or purpose-built assets with few comparables.

For publicly traded securities, valuation typically substitutes discounted cash flow (DCF) analysis, comparable-company multiples and precedent-transaction analysis for the real estate-specific triad above, but the underlying logic is identical: strip away the noise of any single transaction and estimate worth from fundamentals (Shum, 2025).

Valuation is not immune to bias. Appraisers can be influenced by client expectations. Models are only as good as their assumptions and comparable data can be stale or thin in illiquid markets, but its errors are, at least in principle, auditable, because the methodology itself is disclosed and standardized.

3.3 Why the Institutions Matter

The reason these two figures do not simply merge into one "correct" number is that each serves a different institutional master.

Market price exists to *clear a transaction.* Its only job is to let a specific buyer and seller reach agreement. Valuation price exists to serve parties who are *not* at the negotiating table but have a stake in an objective figure: a bank underwriting a mortgage needs assurance the collateral is worth what it is lending against; a court dividing marital assets needs a defensible, non-partisan number; a tax authority assessing property or estate tax needs a methodology that can be applied uniformly and defended on appeal; a company's board needs a fairness opinion before approving a merger.

This is why valuation is typically performed by a licensed, credentialed professional bound by professional standards and, often, legal liability, while market price requires no license at all, only two consenting parties.

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4. Asymmetric Information as the Deep Structural Driver of Divergence

Sections 2 and 3 described how market price and valuation price are produced. This section asks a more fundamental question: why does a gap between them persist even in markets that are competitive, liquid and populated by nominally rational actors? The answer lies in one of the foundational insights of modern microeconomic theory: that price is only a reliable proxy for value when the parties negotiating it share, or can costlessly verify, the same information about the good being exchanged. When that condition fails, market price and valuation price part ways for reasons that are structural rather than accidental and the size of the resulting gap becomes a direct, predictable function of how severe the underlying information problem is.

4.1 Information as a Precondition for Price–Value Correspondence

Classical price theory implicitly assumes that both parties to a transaction are equally and fully, informed about the good's relevant characteristics; under that assumption, competitive market price and fundamental value are simply two names for the same number. Stigler (1961) was among the first to formalize the observation that information is not, in fact, a free good. Acquiring it is costly and economic agents rationally invest in search and verification only up to the point where the marginal cost of additional information equals its marginal benefit. Because information is costly to produce and to verify, it is very rarely distributed symmetrically between a buyer and a seller and this asymmetry, rather than any failure of rationality on either side, is sufficient to drive a wedge between the price a transaction settles at and the value a fully informed observer would assign to the same asset.

Akerlof (1970) extended this insight into his influential paper in the economics of information, showing that asymmetric information is not merely a source of noise around a "true" price but can systematically bias the market price downward relative to underlying value and can, in sufficiently severe cases, eliminate trade in high-quality goods altogether. Where a seller knows more about the quality of an asset than a prospective buyer does, the condition economists term adverse selection, a buyer who cannot verify quality directly can only rationally offer a price reflecting the average quality they expect to receive, discounted for the risk that they are being sold a below-average asset. Sellers of genuinely high-quality assets, unwilling to accept a price that reflects only the pooled average, withdraw from the market, which in turn lowers the average quality of what remains on offer, prompting buyers to revise their price expectations downward still further. This self-reinforcing dynamic is what Akerlof termed the "lemons problem," and it explains, at a theoretical level, why an uninformed buyer's market price will tend to sit below a fully informed valuation whenever quality cannot be costlessly verified. The gap is not evidence of buyer irrationality but of a rational risk discount applied in the face of unresolved uncertainty.

4.2 Adverse Selection and the Corrosion of Market Price

Adverse selection matters for the present discussion because it identifies precisely which markets should be expected to show the largest divergence between market price and valuation price: those in which sellers hold materially better information about quality than buyers do and in which that information cannot be cheaply or credibly verified before a transaction closes. Private, infrequently traded and heterogeneous assets (used vehicles, closely held businesses, unlisted debt, off-plan or newly constructed real estate) are especially exposed to this dynamic, because comparable transactions are scarce and the buyer typically cannot inspect the asset's full history or condition before committing to a price. Stiglitz and Rothschild (1976) extended Akerlof's framework to insurance markets, showing formally that when insurers cannot distinguish high-risk from low-risk applicants, a pooling equilibrium (a single contract offered to all applicants) may be unsustainable and that the market may instead settle into a separating equilibrium in which contracts are deliberately structured (through deductibles, coverage limits and pricing tiers) so that only certain risk types find them attractive. The same logic applies

directly to markets for goods and assets. Where sellers cannot be sorted by quality, the market price that emerges reflects a discounted, pooled expectation rather than the value of any specific asset and valuation.

Stiglitz and Grossman (1980) added a further, complementary dimension to this picture by showing that even where prices are observed to move with new information, as in liquid public securities markets, the process of gathering and analysing that information is itself costly, meaning that market prices can never be perfectly, instantaneously informative without eliminating the incentive to gather information in the first place. Their result implies that some degree of divergence between observed market price and a fully informed valuation is not merely tolerated but structurally necessary: an economy in which prices always fully and immediately reflected all available information would leave no return to the analysts, appraisers and researchers whose work produces that information and the very mechanism by which prices become informative would collapse. Adverse selection therefore should not be understood as a market failure confined to niche or illiquid markets; it is a graduated phenomenon present, in some measure, in every market where information is costly to acquire, including highly liquid public equity markets, where the persistent divergence between trading price and analysts' estimates of fair value is, in this light, the visible residue of the compensated effort required to keep prices informative at all.

4.3 Signaling and Screening as Institutional Responses

If adverse selection arises because an informed party cannot costlessly communicate quality to an uninformed one, economic theory identifies two complementary remedies. Spence (1973) formalized the first, “signaling”, in which the informed party voluntarily undertakes a costly, verifiable action specifically because that action is cheaper for high-quality types to perform than for low-quality types, so that its very existence credibly separates the two. Rothschild and Stiglitz's (1976) screening framework describes the mirror-image mechanism, in which the uninformed party (the buyer, lender, or insurer) designs a menu of contracts or requirements calibrated so that different types of counterparties self-select into different terms, revealing their type through the choice they make rather than through a signal they actively produce.

Formal asset valuation functions as an institutionalized hybrid of these two mechanisms. A seller who commissions an independent appraisal, submits to an audited financial statement, or obtains a professional inspection is undertaking a Spence-style costly signal. The expense is only worth incurring for a seller confident the asset will actually clear inspection favourably, so its presence is informative precisely because it is costly and because low-quality sellers are less willing to bear that cost for an unfavourable result. Simultaneously, a lender or acquirer who requires such a valuation before completing a transaction is engaging in Rothschild–Stiglitz-style screening: the requirement itself sorts counterparties, since sellers of low-quality assets are more likely to avoid or fail such scrutiny. This dual function explains a pattern observed across virtually every asset class discussed later in this paper — that valuation is demanded most intensively precisely

where information asymmetry is most severe (mortgage lending, business acquisition, insurance underwriting) and comparatively less central where continuous, third party-verified pricing already substitutes for individualized inspection (highly liquid, heavily regulated public securities markets).

Myers and Majluf (1984) demonstrated a directly analogous dynamic in corporate finance, showing that when a firm's managers possess private information about the firm's prospects that outside investors lack, the firm's decision to issue new equity is itself interpreted by the market as an adverse signal because managers are more likely to issue overvalued equity than undervalued equity causing the announcement of a share issuance to depress the firm's market price independent of any change in its underlying fundamental value. This result illustrates that asymmetric information does not only distort the price of the asset directly being traded; it can distort the price of related securities through the inferences rational market participants draw about why a transaction is being proposed at all, widening still further the gap between a security's market price and any valuation grounded purely in its fundamentals.

It is also important to note, following both Spence's original analysis and subsequent literature, that signalling and screening resolve the informational problem without necessarily resolving the welfare problem it created. Where a signal (such as a credential, an audit, or an appraisal) is costly to produce but does not itself alter the underlying quality of the asset or party being signalled, the resources spent producing it are, from the standpoint of the economy as a whole, a transfer from productive uses into pure information-verification costs — real and often substantial, but ultimately a toll paid for narrowing an information gap rather than for creating additional value. This matters for interpreting the price–value gap: even where signalling and screening operate efficiently, the gap between market price and valuation price will never fully close to zero, because closing it requires spending real resources that themselves have an opportunity cost.

4.4 Synthesis: Information as the Common Root

Read together, this literature converts the descriptive account of Section 3 into a structural explanation. Market price is exposed to information asymmetry because it is set directly, in real time, by two parties whose knowledge of the asset is rarely equal and whose incentives to disclose that knowledge are frequently opposed (Akerlof, 1970). Valuation price exists, in substantial part, precisely because organized markets and their institutional participants (lenders, courts, tax authorities, boards and regulators) require a mechanism that approximates the informational conditions under which price and fundamental value would coincide, even though those conditions are rarely met in the transaction itself (Rothschild and Stiglitz, 1976; Grossman and Stiglitz, 1980). Signaling and screening mechanisms, of which formal valuation is a leading institutional example, can narrow this gap, but they do so at a real resource cost and can never close it entirely because verification itself is costly (Stigler, 1961; Spence, 1973). The persistent divergence between market price and valuation price documented throughout this paper is, in this

light, not a symptom of market malfunction but the direct, theoretically predictable signature of the fact that information, like any other economically scarce resource, is costly to produce, costly to verify and never perfectly shared between the parties whose decisions ultimately determine what an asset is worth and what it sells for.

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5. Applications Across Asset Classes

5.1 Residential Real Estate

Real estate is where the market-price/valuation-price distinction is most visible to ordinary people, because both figures are produced explicitly and close together in time. A seller sets an asking price informed by a real estate agent's comparative market analysis; a lender independently commissions a formal appraisal before approving a mortgage; and the two parties then negotiate a final sale price that may sit above, below, or at either figure.

The gap becomes most dramatic in supply-constrained markets. During periods of low inventory and high buyer competition, homes routinely sell well above appraised value, forcing buyers to cover the difference in cash because lenders will not finance beyond the appraisal. This is the clearest possible demonstration that market price and valuation price are answering different questions: the market price reflects what this particular pool of competing buyers was willing to pay this week; the valuation reflects what a neutral professional believes a typical, unpressured buyer would pay based on recent comparable sales.

5.2 Private Business Valuation

In mergers and acquisitions, the divergence is, if anything, starker, because private businesses lack a continuous public market price altogether. Every sale is a one-off negotiation. A formal valuation (often built on discounted cash flow or EBITDA-multiple methodology) establishes a baseline, but the final transaction price is shaped by strategic considerations that have nothing to do with the target's standalone fundamentals: a buyer's need to eliminate a competitor, expected synergies, tax structuring, or simple deal urgency. It is not unusual for an acquirer to pay a substantial premium over any independent valuation specifically because the asset is worth more *to them, in combination with what they already own* than it is worth in isolation. A distinction valuation theory captures through the separate concept of "investment value" versus "fair market value."

5.3 Public Equities

Publicly traded stocks present the most continuous and visible version of this tension, because market price is generated every second the exchange is open, while analysts' valuation estimates are updated only periodically. Here the divergence is not the exception but the norm: it is entirely ordinary for a security to trade meaningfully above or below what fundamental analysis would suggest, for extended periods, driven by momentum, macroeconomic sentiment, liquidity flows,

or narrative. The efficient-market hypothesis holds, in its stronger forms, that persistent divergence should not exist because informed investors would arbitrage it away; behavioural finance holds, with substantial empirical support, that such divergence is not only common but can persist for years, as seen in speculative bubbles and their subsequent corrections. The very existence of an entire professional discipline — equity research — devoted to estimating "fair value" and comparing it to trading price is itself proof that the market does not consider price and value synonymous.

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6. Convergence, Divergence and What the Gap Reveals

If markets were perfectly efficient, frictionless and populated entirely by rational, fully informed actors, market price and valuation price would converge to the same number over time, because any persistent gap would represent a profit opportunity that arbitrage would quickly close. In practice, several structural conditions keep the two figures apart, sometimes indefinitely:

- **Illiquidity.** Assets that trade infrequently (private companies, unique real estate, art, closely held securities) have no continuous market price to compare against valuation at all, only intermittent data points.
- **Behavioural and emotional premiums.** Buyers routinely pay for intangible, non-fungible attributes (a view, a school district, a sentimental attachment) that standardized valuation methodology is structurally unable to price.
- **Information asymmetry.** As formalized in Section 4, when one party to a transaction has material information the valuator did not have access to, the eventual market price will diverge from the prior valuation almost by definition and in the most severe cases can prevent trade from occurring at any price at all.
- **Regulatory and tax incentives.** In many jurisdictions, valuation for tax purposes (assessed value) is deliberately conservative and lags market price by years, producing a persistent, structural gap that has nothing to do with market inefficiency and everything to do with administrative design.
- **Macro conditions and sentiment cycles.** Particularly in public and real estate markets, aggregate psychology (i.e.fear, greed, momentum) can move prices well outside any range a fundamentals-based valuation would support, for periods lasting from months to years.

Rather than viewing this gap as a flaw, it is more accurate to view it as evidence of the different jobs the two figures are doing. Market price answers a *retrospective* question: what did happen. Valuation price answers a *prospective* one: what should happen, absent distortion. A well-functioning economy needs both. The first to let commerce occur at all, the second to give lenders, courts, tax authorities and investors a stable reference point independent of any single

transaction's idiosyncrasies. It is precisely because the two are not the same that each retains its distinct institutional value.

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7. Conclusion

Market price and valuation price are frequently and understandably, conflated, because both purport to answer the deceptively simple question "what is this worth?" But they are products of entirely different processes. One an emergent fact of negotiation between two specific, interested parties; the other a disciplined, replicable estimate produced by a neutral professional applying standardized method to available evidence. The former is inherently local, momentary and shaped by emotion and circumstance; the latter aspires to be general, durable and shaped by disciplined analysis. Beneath both lies a common structural cause of their divergence: asymmetric information. Where buyers and sellers hold unequal knowledge of an asset's true quality, adverse selection can push market price away from fundamental worth, signalling mechanisms such as formal valuation can partially — but not costlessly — correct for it, as behaviour unfolds in ways no valuation could have anticipated. Across residential real estate, private business transactions and public securities markets alike, the persistent, sometimes substantial gap between market price and valuation price is not a symptom of market failure to be engineered away, but a structural consequence of the different institutional functions each figure is built to serve and of the informational frictions that neither negotiation nor professional judgment can ever fully eliminate. Recognizing this distinction and knowing which of the two numbers is actually relevant to the decision at hand is one of the more consequential pieces of financial literacy available to anyone who will, at some point, buy a home, sell a business, invest in a stock, or simply try to understand what their own assets are actually worth.

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