Market Price and Market Value: Why What Something Sells for Is Not Always What It Is Worth

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When people talk about buying and selling, the words price and value are often used as though they mean the same thing. If someone purchases a car for $3 million, for example, it is natural to say that the car is worth $3 million. Similarly, if a house is sold for $30 million, people may simply refer to the property as being worth $30 million. In everyday conversation, this is understandable. In economics, finance and valuation, however, the distinction between price and value is much more important. What something sells for is not necessarily the same as what it is worth.

Market price is the amount that is actually agreed and paid in a completed transaction, while market value is an informed estimate of what an asset would reasonably be expected to sell for under normal market conditions. The two figures can coincide, but there is no requirement that they must. They are determined in different ways and, importantly, answer different questions. The original distinction between the two rests on this fundamental difference: market price records what happened, while valuation seeks to estimate what should reasonably happen under specified market conditions.

Consider the purchase of a used car. Suppose a 2019 vehicle is advertised for $3.2 million. The fact that the seller is asking for $3.2 million does not mean that the vehicle is worth $3.2 million. It is simply the seller's asking price. After examining similar vehicles currently being sold or recently sold, the vehicle's mileage, mechanical condition, service history, accident history and specifications, an independent assessment might conclude that its market value is approximately $2.8 million. If a buyer nevertheless agrees to pay $3.1 million because they particularly want that vehicle, need one immediately or simply believe it is worth that amount to them, $3.1 million becomes the market price once the transaction is completed. The fact that the buyer paid $3.1 million does not, by itself, establish that the vehicle's market value is $3.1 million.

The opposite can also happen. Suppose the same vehicle has an estimated market value of $2.8 million, but the owner needs to sell it quickly and accepts $2.5 million. Once the transaction is completed, $2.5 million is the market price. Yet the lower transaction price does not necessarily mean that the vehicle's market value was $2.5 million. The difference may have resulted from the

seller's urgency rather than a fundamental change in the vehicle's characteristics. This illustrates why market price is influenced not only by the asset itself, but also by the circumstances in which the transaction takes place.

Market price is therefore determined by a specific mechanism. It belongs to a particular transaction involving a particular buyer, a particular seller and a particular point in time. Negotiating power, urgency, competition among buyers, financing conditions, scarcity and personal preferences can all influence the final price. Two similar assets can consequently sell for different amounts even when there has been no meaningful difference in their underlying characteristics. The scholarly literature underlying this article similarly identifies competition, urgency, information asymmetry, sentiment and liquidity as factors that can influence the price produced by a transaction.

Market value is determined differently~~.~~ from the mechanism that drives market price. Rather than focusing on one particular transaction, valuation attempts to establish a reasoned estimate based on available evidence and an appropriate methodology. Depending on the asset, this may involve comparing similar transactions, examining the income that an asset can generate, estimating future cash flows or considering the cost of replacing the asset. In the case of a house, for example, a valuer may examine recent sales of comparable properties and make adjustments for differences in location, size, condition and other characteristics. In the case of a business, expected earnings and future cash flows may be important. For a vehicle, comparable sales, mileage, condition, specifications and service history may all be relevant.

This explains why a valuation is not simply another way of stating the transaction price. It is an attempt to arrive at a defensible estimate that is less dependent on the particular circumstances of one buyer and one seller. A valuation does not claim to discover a perfectly objective or permanent number. Its reliability depends on the quality of the information available, the methodology used and the assumptions made. Nevertheless, its purpose is to provide a structured reference point rather than simply reproduce the outcome of a single negotiation.

The distinction becomes particularly important when buying a house. Imagine that a property is advertised for $35 million. After negotiations, the buyer and seller agree on $33 million. $33 million is the market price of that completed transaction. However, an independent valuation might conclude that the property's market value is $30 million. This difference can have practical consequences. If the buyer is obtaining a mortgage, for example, the lender may consider the independent valuation when determining how much it is prepared to lend because the property serves as security for the loan. The buyer may therefore have to provide additional funds if the agreed purchase price exceeds the amount the lender is prepared to finance against the property's valuation. The existence of two different numbers does not necessarily mean that either number is wrong. They simply serve different purposes.

The same principle applies to businesses. A company may be independently valued at $500 million based on its assets, earnings and expected future cash flows, yet another company may be willing to pay $600 million to acquire it. At first glance, this may appear to suggest that the business was undervalued. But the acquiring company may expect benefits from the acquisition that are not

captured by the value of the business operating independently. It may gain access to new customers, eliminate a competitor, obtain distribution networks or create other efficiencies by combining the two businesses. The business can therefore be worth more to that particular buyer than it is as a standalone asset.

Shares traded on a stock exchange provide another familiar example. If a company's shares are currently trading at $100, $100 is the market price. An analyst, however, may estimate that the shares are worth $120 based on expected future earnings and cash flows. Another analyst may arrive at a different estimate. The market price reflects the price at which investors are currently buying and selling the shares, while the valuation represents an analytical assessment of what those shares may be worth based on assumptions about the company's future performance. This is one reason investors devote considerable attention to the relationship between a company's trading price and their estimate of its underlying value.

One of the most important reasons that price and value can differ is information. Imagine buying a used vehicle from someone who knows its complete history while you do not. The seller may know about a previous accident, a recurring mechanical problem or poor maintenance that is not immediately apparent to you. If you knew this information, you might offer less. Conversely, a seller may have a very well-maintained vehicle but find it difficult to convince potential buyers of its quality. The difference in what the buyer and seller know is known in economics as information asymmetry, and it is an important reason why markets do not always produce a price that corresponds perfectly with an independently estimated value.

This problem helps explain the importance of inspections, appraisals, audits and other forms of independent verification. When information is costly or difficult to obtain, buyers and other decision-makers need mechanisms that help them assess the quality and worth of what they are considering. A bank, for instance, may require a property valuation before approving a mortgage because it has an interest in knowing whether the property provides sufficient security for the loan. Similarly, a court may require a defensible valuation when determining the value of assets, while shareholders may require an independent assessment when considering a major corporate transaction.

It is important not to assume that a difference between market price and market value means that one of the numbers must be wrong. A market price is an outcome produced by an actual negotiation. It reflects the circumstances of the people involved in that transaction. A market value, by contrast, is a professional estimate based on evidence and specified assumptions. The two can be close, but they can also diverge because markets are influenced by factors that a valuation may deliberately seek to control for or exclude.

This distinction is useful for consumers. A person looking at a car advertised for $3.5 million should not automatically conclude that the vehicle is worth $3.5 million. The asking price is simply what the seller wants. A person who sees a house listed for $40 million should not automatically assume that $40 million represents its market value. An investor seeing a share trading at $100 should also recognise that the market price does not necessarily tell them what the share is

fundamentally worth according to every analytical assessment. In each case, additional information is needed.

The most useful question is therefore not simply, “What is this worth?” but rather, “Which measure of worth am I looking at?” If the question is what someone actually paid, the relevant figure is the market price. If the question is what the asset would reasonably be expected to exchange for under normal market conditions, the relevant concept is market value. If the question is what a seller wants, the relevant figure may simply be the asking price. If the question is what a particular buyer is prepared to pay, the answer is an offer or bid. These numbers can all be different, and understanding why they differ is an important part of financial literacy.

Ultimately, market price and market value should not be viewed as competing numbers in which one must always defeat the other. They perform different functions. Market price tells us what happened in an actual transaction. Market value provides a structured estimate that can help people make decisions when the transaction itself has not yet occurred or when an independent reference point is required. The difference between the two is a natural feature of markets in which people have different information, preferences, circumstances and expectations.

The next time you hear that a car, house, business or investment is “worth” a particular amount, it is worth asking one simple question: is that the price someone actually paid, or is it an estimate of the asset's value? That small distinction can make a significant difference to how we understand a transaction and, ultimately, to the financial decisions we make.

Price tells us what the market transaction produced. Value gives us an informed basis for judging what the asset is reasonably worth. Knowing the difference is therefore not merely a matter for economists or professional valuers. It is a practical piece of financial knowledge that can help all of us make better decisions when buying, selling, borrowing or investing.