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### Price Formation in a Competitive Market When the Payoff of an Asset Depends on the Market Price

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**Abstract:** We consider a competitive market where the final payoff of a risky asset depends on the market price of the asset. It is shown that when the final payoff depends on the market price, there are multiple equilibria, and that even a small change of parameter setting may cause big price movements. It is also shown that, in contrast to Easley and O'Hara (2004), the shift of information from private to public may increase the required return of the risky asset.

**Keywords:** [Market microstructure](#); [CARA-Normal](#); [private information](#); [cost of capital](#); [multiple equilibria](#)

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