

# Beauty Contests and Asset Prices under Asymmetric Information\*

Ryuichiro Ishikawa<sup>†</sup>

Noritaka Kudoh<sup>‡</sup>

University of Tsukuba

Hokkaido University

April 20, 2009

## Abstract

This paper studies a dynamic Gaussian financial market model developed by Allen, Morris, and Shin (*Review of Financial Studies*, 2006) to investigate asset pricing when traders form higher-order expectations (HOE). In particular, we focus on the role of asymmetric information for the informational efficiency of prices and the persistence of mispricing. We also highlight the importance of market microstructure for the informational efficiency by studying the case where the informed traders submit market orders instead of limit orders.

JEL classification: D82, D84, G12, G14

Keywords: higher-order expectations, asset prices, informational efficiency, adverse selection.

---

\*Preliminary version.

<sup>†</sup>Department of Systems and Information Engineering, University of Tsukuba, 1-1-1, Ten-noudai, Tsukuba, Ibaraki 305-8573 JAPAN; Email: ishikawa@sk.tsukuba.ac.jp

<sup>‡</sup>Corresponding author: Department of Economics, Hokkaido University, Kita 9 Nishi 7, Kita-ku, Sapporo 060-0809, JAPAN; Email: kudoh@econ.hokudai.ac.jp