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Abstract

The hypothesis that financial markets punish traders who make relatively inaccurate forecasts and eventually eliminate the effect of their beliefs on prices is of fundamental importance to the standard modeling paradigm in asset pricing. We establish straightforward necessary and sufficient conditions for agents to survive and to affect prices in the long run in a general setting with minimal restrictions on endowments, beliefs, or utility functions. We describe a new mechanism for the distinction between survival and price impact in a broad class of economies. Our results cover economies with time-separable utility functions, including possibly state-dependent preferences.

Keywords: Financial Markets, Heterogeneous Beliefs, Price Impact, Survival, General Equilibrium.

JEL Codes: D53, D84, G14, G17.

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