# Equilibrium returns in markets with price impact and frictions

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We consider an Itô financial market where the assets' returns are derived endogenously through a market clearing condition amongst strategically behaved, risk-averse investors with quadratic preferences and random endowments. Agents act strategically by taking into account the impact that their orders have on the market's drift. Two cases are examined: one for a frictionless market and another for a market with frictions that are modeled via quadratic transaction costs. In the former we derive the unique Nash equilibrium at which investors' demand schedules reveal different hedging needs than the true ones implying, in turn, that the Nash equilibrium in this context deviates from the corresponding competitive one. For the case of frictions we note that while the frictional Nash equilibrium differs from its frictionless competitive and non-competitive counterparts, it is connected to both of them under special conditions.