"Portfolio Choice and Pricing in Illiquid Markets"

Abstract
This paper studies portfolio choice and pricing in markets in which immediate trading may be impossible, such as the market for private equity and certain over-the-counter markets. Optimal positions are found to depend significantly and naturally on liquidity: when future liquidity is expected to be higher, agents take more extreme positions, given that they do not have to hold them for long when no longer desirable. Consequently, in markets with more frequent trading larger trades should be observed. The price, on the other hand, is not affected significantly by liquidity, due to the mitigating effect of endogenous position choice.