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Corporate Liquidity

The average cash-to-assets ratio for U.S. industrial firms more than doubled from 1980 to 2006. In fact, as of 2006, the average firm could retire all debt obligations with its cash holdings. I study various dimensions of the *ex-ante* determinants and the *ex-post* implications of corporate liquidity. I show that organization form (diversification) and alternative risk management instruments (derivative hedging, bank lines of credit) are closely related to corporate cash policy. I also show that cash holdings played a significant role in mitigating the impact of the 2007 credit crisis on corporate investment