

Abstract: I examine whether organizational form matter for corporate liquidity, focusing on the effect of business diversification on firms' choice between bank lines of credit and cash holdings. I find that diversified firms have relied on bank lines of credit more than their focused counterparts, as they have increased their liquidity in the last two decades. I test several theoretical explanations for this finding. First, I find no evidence that diversified firms with lower aggregate risk (beta) have a higher probability of obtaining credit lines or use higher amounts of revolving credit than the higher beta firms. However, high idiosyncratic risk of borrowers hinders their access to credit lines. This effect is larger for smaller and for non-investment grade firms. My results are consistent with the monitored liquidity insurance hypothesis, where diversified firms with lower liquidity risk and hedging demand use more bank lines of credit.