

**Abstract**

In this paper we investigate Dutch corporate liquidity management in general, and target adjustment behaviour in particular. To this purpose, we use a simple error correction model of corporate liquidity holdings applied to firm-level data for the period 1977-1997. We confirm the existence of long-run liquidity targets at the firm level. We also find that changes in liquidity holdings are driven by short-run shocks as well as the urge to converge towards targeted liquidity levels. The rate of target convergence is higher when we include more firm-specific information in the target. This result supports the idea that the degree of error in defining liquidity targets associates negatively with the observed rate of target convergence. It also suggests that the slow speeds of adjustment obtained in many macro studies on money demand are artefacts of aggregation bias.