University of Management and Technology Lahore UMT

"Cash Dividend Disbursement, Retained Earnings and their Impact on Stock Price Volatility- A case of Selected Non-Financial Firms of Pakistan"

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Dedication

I would like to dedicate this learning to my Teachers (especially Professor Hafiz Muhammad Nawaz& Muhammadian Academy Students), Parents and Family. Because without their cooperationI would not have achieved all this in my life.

Declaration

I hereby declare that the work entitled “Cash Dividend Disbursement, Retained Earnings and their Impact on Stock Price Volatility- A case of Selected Non-Financial Firms of Pakistan” is my own work and no part of this thesis has been copied from any othersource except where explicit acknowledgement is made in the text.

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Abstract

How corporate dividend policy and retained earning impacts on market stock price volatility is broadly researched topic beside this it remained a matter of discussion since over last five decades. This study is conducted to know the relationship of corporate dividend policy (cash dividends), retained earnings and their impact on stock price volatility. The past researches have shown mixed evidences of this relationship, and results are still not conclusive all around the world including Pakistan. Not much studies have been conducted in Pakistan which have contributed for conclusive remarks on this untapped area of research in the growing economy.To know this relationship several researches were conducted but the results remain inconclusive as whether the relationship existed or not. In this study there were used modern statistical and technological techniques and tools respectively for analyzing the data and extracting the results. A total of 75 companies data was initially collected where after scrutiny on different parameters mentioned in the study, only 50 companies from year 2008 to 2015were left to be analyzed as the data was not wholly available for the remaining companies as per research requirement. Two separate models are run and results were determined that there exists positive association of Corporate Dividend Policy, Retained earnings with Stock price volatility.

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S#	Abbreviations	
1	IRR	Internal Rate of Return
2	IPO	Initial Public Offerings
3	Pvol	Share Price Volatility
4	DY	Dividend Yield
5	DPR	Dividend Payout Ratio
6	LEV	Leverage
7	ASGr	Asset Growth
8	RETR	Retentio Ratio
9	EARVOL	Earnings Volatility
10	EPS	Earning Per Share
11	PAT	Profit After Tax
12	SPV	Stock Price Volatility
13	SIZ	Size
14	Retained Earnings	RE

Chapter 1. INTRODUCTION

1.1 Background

In the history of corporate finance a few topics remained ambiguousbut important at the same time, a lot of researches have been done to know about the effect of corporate dividend disbursement policy on market stock price volatility(Nawaz, 2011).It is suggested to managers that they should pay dividends open heartedly because the stock returns are not enhanced by the retained earnings (Javed & Shah, 2015). It is a fact that corporate dividend disbursement policy do effect the movement of share prices on stocks market causing volatility in the market share prices of the firm, the more this influence exists the more it is important to the investor(Ajayi & Seyingbo, 2015).Dividend policy is one of the core corporate policy which determines how much is needed to be disbursed among shareholders and how much to be reserved with the company accounts for any forthcoming investment. It is basically a division of the earnings of the company which needs to be segregated in to two portions one which needs to be disbursed and the other which needs to be retained (Hashemijoo, Ardekani, & Younesi, 2012).

The advancement in the dividend policy goes hand in hand with the corporate development. It has been concluded that change in financial markets drives dividend policy. In the earlier stages, the dividend payments only focused on meeting the expectations of shareholders. Managers tried to pay consistent dividend due to the reason that any inconsistency may lead to have an adverse effects on the market share price of the firm’s stock. It was also a belief that without financial reports, dividends are measured the only best gauge for firm’s corporate performance in the stocks market. This debate started for over 50 years back and still ongoing(S.A.K, D, & Sewak.S, 2016).

Finance Managers usually face three main decisions to be made by them, the first decision they need to do is of Investment and capital budgeting, the second decision they need to do is dividend payout decision whereas the third and last important decision they need to do is Financing decision

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