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**AN EMPIRICAL ANALYSIS OF STOCK PRICE REACTION TO
INTERIM DIVIDEND ANNOUNCEMENTS: EVIDENCE FROM
CLOMBO STOCK EXCHANGE**

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FGS/25/01/2005/30

MBA 62016



This dissertation is submitted to the Faculty of Commerce & Management studies, University of Kelaniya, Sri Lanka, as a partial requirement of the Master of Business Administration (MBA) Programme

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May 2008

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Abstract

This research project analyses the stock prices reaction to interim dividend announcements in the Colombo Stock Exchange. This study addresses the major empirical questions. How do stock prices react to interim dividend announcements on the Colombo Stock Exchange? Does information subsequent to a public announcement of dividends reflect fully and instantaneously on share prices? These issues are investigated through an overall sample of 205 events of 49 companies covering the period from 1999 to 2007 using well known event study methodology.

The findings of the market reaction over interim dividend announcement support the informational content of the dividend hypothesis; the analysis shows that the Sri Lankan Stock Market is inconsistent with the semi-strong form of the Efficient Market Hypothesis. These empirical findings are important implications for the investors to make portfolio decision, management to communicate important information to the market on a timely and regular basis, Stock market regulatory agencies to increase monitoring activities on the stock market to ensure that listed companies disseminate important information timely and regularly. This sort of study can motivate the development of stock market activities through an effort of findings ways and means to earn better return to the investors of the Sri Lankan Stock Market.