

**Impact of the Dividend Announcement for Share Price Volatility in Sri Lanka:  
Empirical Evidence from Colombo Stock Exchange**

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**Abstract**

Stock price reaction to the dividend announcement is a topic that discusses in number of empirical research in the developed and emerging stock markets over the last several decades. This study attempts to examine stock price reaction to dividend announcements in Sri Lankan Share Market with a sample of 20 major companies from those listed on the Colombo Stock Exchange (CSE), which have made a dividend announcement for the year 2014/2015. This study employs observation as methodology. More specifically, it employs the market returns surrounding dividend announcements. Findings show that there is a considerable informational content of dividend announcements in Colombo Stock Exchange. The investors consider dividend announcements as favorable news. The stock price reacts positively to dividend announcements in Sri Lankan Capital Market. More specifically, dividend increase announcements support the information content of dividend hypothesis. Moreover, dividend decrease announcements and dividend no change announcements against with the information content of dividend hypothesis. In addition, the results in this study has provided a light on the pathway to discovering impact of dividend announcement to a share price volatility. I hope this research will be important to all those takes interest in the share market. Especially, it is more important to the investors, managers of the companies and stock exchange regulatory agencies in their decision-making.

**Keywords:** *Colombo Stock Exchange, Dividend Hypothesis, Price Volatility*