

Dividend Policy and Stock Price Volatility: A Study among the Commercial Banks in Sri Lanka

Mathumitha, G.¹ and Madhushani, P.W.G.²

Department of Finance, University of Kelaniya, Sri Lanka^{1,2}

mathumithaganesh12@gmail.com, gangam@kln.ac.lk

ABSTRACT

Purpose: The main aim of this study is to identify the impact of the dividend policy on stock price volatility in listed commercial banks in Sri Lanka because the volatility of share prices affects the price return of shares (capital gain).

Design/ Methodology/Approach: Two key variables; Dividend payout and Dividend yield have been taken as the independent variables after controlling for firm size. The stock price volatility was taken as the dependent variable. Data collection was carried out with a sample of 10 listed Licensed Commercial Banks (LCBs) in Sri Lanka for the period from 2012 – 2019. A Panel regression model was adopted with the random effect model to analyze the impact of dividend policy on stock price volatility.

Findings: The results revealed that the Dividend Payout ratio has a significant positive and Dividend Yield has an insignificant negative impact on the stock price volatility of LCBs in Sri Lanka.

Originality: The findings suggest that the dividend payout would lead to volatile stock prices. Hence potential and existing investors should focus on banks that have a high payout ratio compared to the earnings generated.

Keywords: *Dividend Payout Ratio, Dividend Yield, Share Price Volatility, Dividend Policy, Licensed Commercial Banks*